SENATE SELECT COMMITTEE

ON INTELLIGENCE

Report on Preliminary Inquiry

January 29, 1987

S422-1

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United States Senate

SELECT COMMITTEE ON INTELLIGENCE
WASHINGTON, DC 20510-6475

January 29, 1987

The Honorable Daniel K. Inouye
Chairman
Select Committee on Secret Military Assistance
to Iran and the Nicaraguan Opposition
United States Senate
Washington, D.C. 20510

Dear Dan:

Pursuant to Senate Resolution 23, transmitted herewith is the report prepared by the Select Committee on Intelligence summarizing the results of our preliminary inquiry into the sale of arms to Iran and the possible diversion of funds to the Contras. In accordance with the terms of Senate Resolution 23, the report describes in narrative form information which the Committee was able to learn during the course of its study and identifies areas of inquiry that the Committee believes should be among those pursued by the Special Committee.

In transmitting this report to your Committee, we would like to share briefly with you the limited objectives of the Committee, a sense of how the Intelligence Committee conducted the inquiry upon which the report is based, and where we stand in terms of gathering relevant information.

At the outset, it should be emphasized that the study by the Intelligence Committee was necessarily limited, both in scope and in time. It was never the goal or the mandate of the Intelligence Committee during this initial phase to conduct a definitive investigation into this complex matter. Rather, the Intelligence Committee undertook its inquiry pursuant to its responsibility for oversight of the nation's intelligence activities. Furthermore, we sought to gather as much information as possible while recollections were fresh and to collect in one place as many documents as possible that would be pertinent to any future comprehensive investigation. In addition, it was our hope that this preliminary work would help the new Committee to accomplish its task more quickly insofar as some of the groundwork would have been done. The Intelligence Committee, we believe, succeeded in accomplishing this goal.

For all intents and purposes, the Committee commenced its inquiry on December 1 by issuing subpoenas to 15 individuals and entities, as well as a series of invitations to appear, and concluded the information gathering process on December 18.

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During this period, the Committee received testimony from 36 witnesses and received thousands of pages of documents. While it was impossible to include all details of documents and all information received because of constraints of time and resources, nonetheless, the complete record of information received, including any additional data which was received after December 18, is herewith transmitted to the Special Committee in addition to our report.

While documents and testimony received by the Committee during the course of its study of this matter were voluminous, the work of our Committee was only preliminary in nature for a number of reasons related primarily to the time constraints described above. First, a number of potentially useful witnesses could not be called by the Committee or were out of the country and therefore unable to testify. Secondly, while a total of 36 witnesses appeared before the Committee, such key witnesses as Admiral John Poindexter, Lieutenant Colonel Oliver North, Retired Major General Richard Secord, Retired Colonel Robert Dutton, and Colonel Robert Earl asserted their constitutional rights and declined to testify. Director of Central Intelligence William Casey appeared before the Committee just before this inquiry was commenced and before the full scope of the situation was known by the public or by the Committee, and prior to his unfortunate illness. Accordingly, his testimony was general in nature and was not under oath. Third, because of the pressure of time, the witnesses that appeared before the Committee did so without the benefit of prior interviews. Obviously, from an investigative standpoint, this precluded a comprehensive examination. And, when the witnesses did testify, consistent with the Committee's objectives, the questioning was geared toward information gathering purposes rather than toward prosecution and confrontation. Fourth, except in two instances, witnesses were not recalled to be questioned regarding information acquired by the Committee subsequent to their initial appearance. Any such information or documents, of course, are included in this transmittal to the new Special Committee. Fifth, again consistent with the Committee's information gathering purposes, subpoenas were narrowly drawn. Consequently, there may still be documents that we have not obtained that would be helpful to you. And, while the staff has reviewed the vast majority of documents that were received by the Committee, including all documents received from public sources, time constraints

have prevented a detailed analysis of all documents from private sources. Finally, as noted above, new information has come to light since the close of the fact finding period with respect to which the Committee could not follow up if it was to complete this report to the new Special Committee. This includes information both reported in the media and contained in documents that are still being delivered to the Intelligence Committee in response to our subpoenas. It was felt that since the new Special Committee has now been charged with overall responsibility for the investigation, this information should simply be transmitted to the new Committee rather than subjecting it to analysis by the Intelligence Committee.

As noted above, the Committee heard testimony from 36 witnesses and gathered thousands of pages of documents from both public and private sources. When witnesses testified before us, they did so behind closed doors and before only Senators and limited Committee staff. The Committee was careful to sequester witnesses as a precaution against coordinated or otherwise compromised testimony. Again, our goal was to preserve the record for any future investigation.

With respect to the report itself, we have attempted to set forth information received by the Committee in an objective manner, without evaluation. We believe that this is necessary because any conclusions based upon such inherently limited fact finding would be necessarily premature. Therefore, the report seeks solely to be an accurate and fair representation of the information which has been presented to us. We have tried to indicate where there are discrepancies in testimony about specific events or decisions and where there are gaps in the information that we have learned. Indeed, it is evident that this preliminary inquiry cannot provide a final resolution to the fundamental questions facing the new Special Committee.

Because so much attention has been given to earlier staff drafts of reports which were not approved by the Intelligence Committee, we would like to touch briefly on why this report has been adopted by the Committee. First, the Committee believes that its report should be primarily a summary of the information that we have gathered and that it could not appropriately reach conclusions or findings because of its preliminary nature, other than to note discrepancies

and gaps and to identify areas of inquiry which might merit future consideration by your Committee. We believe that this report accomplishes that goal.

Secondly, since January 6, the testimony of a dozen witnesses has been transcribed and made available for preparation of this report and thousands of pages of documents which had not been previously indexed and reviewed, have now been analyzed. While much of this information does not dramatically change the thrust of the report, some of the information is clearly useful. If some of the documents which were in our possession had not been reviewed and analyzed before the issuance of a report, such an omission could have adversely affected the credibility of the Committee's work.

What we are presenting to you is, as we indicated, still necessarily incomplete. We believe, however, that it is as complete and consistent as it can be based upon the information made available to us. This report describes the essence of much of the documents and testimony that we have gathered, and it is our hope and belief that the report, along with the documents and testimony transmitted herewith, will provide a useful tool to your Committee staff as you begin your work.

We look forward to working with you in this vital endeavor to determine all the facts regarding this matter and the implications for our national security and our foreign policy decision making process. If the Members or the staff of the Senate Select Committee on Intelligence can be of any assistance to you in the upcoming weeks and months, please do not hesitate to call upon us.

Sincerely,

David L. Boren
Chairman

William S. Cohen
Vice Chairman

INTRODUCTION

In response to public and private reports and in accordance with its responsibility for oversight of the nation's intelligence activities, the Senate Select Committee on Intelligence on December 1, 1986 undertook a preliminary inquiry into the sale of arms to Iran and possible diversion of funds to the Contras. It was not the goal of the Committee to conduct a definitive investigation into this complex matter. Rather, the Committee sought only to gather as much information as possible while recollections were fresh and to collect in one place as many relevant documents as possible.

Accordingly, two objectives were served: first, the Committee learned a great deal of information that will be extremely useful in the future as the Committee continues to perform its intelligence oversight function; and, secondly, testimony and documents have been preserved that the Committee hopes will contribute to the Select Committee on Secret Military Assistance to Iran and the Nicaraguan Opposition as it performs its investigative function. As a result, the Select Committee should be able to save time by moving more rapidly through the preliminary stages of its investigation and thereby get the facts to the American public that much sooner.

Consistent with these twin objectives, and pursuant to Senate Resolution 23 (100th Congress), this report is in two parts: first, Section I summarizes in narrative form the information given to the Committee during the course of its inquiry which the Committee believes is materially relevant to the mandate of Senate Resolution 23. Since the fact finding of the Committee encompassed only 18 days, this narrative is necessarily incomplete and thus endeavors only to provide a general chronological framework of events derived from the documents and testimony received by the Committee. Secondly, again consistent with Senate Resolution 23, Section II sets forth certain unresolved questions and issues that the Committee recommends be pursued by the Select Committee.

THE IRAN INITIATIVE

Origins

The Committee's inquiry suggests that the Iran initiative originated as a result of the confluence of several factors including:

- A reappraisal of U.S. policy toward Iran by the National Security Council, beginning in late 1984, with special emphasis on building a constructive relationship with moderate elements in Iran;
- Deep concern at the highest level of the U.S. Government over the plight of American citizens held hostage in Lebanon;
- Israel's strong and continuing interest in furthering contacts with Iran;
- Efforts on the part of private parties, including international arms dealers and others.

Reappraisal of U.S. Policies

The formal reappraisal of U.S. policy toward Iran began in late 1984 when the National Security Council issued a National Security Study Directive (NSSD). An NSC official involved in the policy review testified that he was disappointed with the bureaucracy's lack of imagination in responding to this study directive and with the absence of any recommendation for change in policy.

In May 1985, the CIA National Intelligence Officer for the Middle East prepared a five-page memo which went to the NSC and the State Department, arguing for a change in U.S. policy that would seek a more constructive relationship with Iranian leaders interested in improved ties with the West. The memo argued in part that the U.S. could permit allies to sell arms to Iran as one of the alternative means of establishing Western influence so as to offset growing Soviet inroads in Iran. Apparently using the arguments in this memo two members of the NSC staff then prepared a draft National Security Decision Directive (NSDD) which proposed a departure in U.S. policy toward Iran. Describing the Iranian political environment as increasingly unstable and threatened by Soviet regional aims, the draft NSDD stated that the U.S. is compelled to undertake a range of short and long term initiatives to include the provision of selected military equipment to increase Western leverage with Iran and minimize Soviet influence.

National Security Adviser Robert McFarlane transmitted the draft NSDD on June 17, 1985 to Secretaries Shultz and Weinberger for their comment. State Department logs and Secretary Shultz's testimony indicate that he responded in writing on 29 June that the proposed policy was "perverse" and "contrary to our own

interests." Weinberger made the following comment in the margin of the draft, "This is almost too absurd to comment on." According to Weinberger's testimony and that of Assistant Secretary of Defense Armitage, Weinberger responded in writing opposing such sales.

The Hostage Factor

Testimony by several senior Administration witnesses indicate that during 1985, the Administration was occupied on a regular basis with matters relating to terrorism and the state of U.S. hostages. In particular, documents and testimony reflect a deep personal concern on the part of the President for the welfare of U.S. hostages both in the early stages of the initiative and throughout the program. The hostages included William Buckley, a U.S. official in Lebanon. Information was received that in late 1985 the Syrians informed Ambassador Vernon Walters that Buckley's Iranian captors had tortured and killed him. The reports indicate that this information was conveyed to Vice President Bush who found it very distressing. The possibility of the release of U.S. hostages was brought up repeatedly in conjunction with discussion of the program.

Israeli Interests

According to documents and testimony received by the Committee, Israel had a strong interest in promoting contacts with Iran and reportedly had permitted arms transfers to Iran as a means of furthering their interests. A series of intelligence studies written in 1984 and 1985 described Israeli interests in Iran. These studies also reported Israeli shipments of non-U.S. arms to Iran as well as the use of Israeli middlemen as early as 1982 to arrange private deals involving U.S. arms. In an interview with the Chairman and Vice Chairman of the Committee on November 21, 1986, National Security Adviser John Poindexter described Israel's interests in much the same terms.

McFarlane testified that he was never informed by CIA that Israel had been engaged in such activities during 1981-85. In fact, McFarlane, prompted by news accounts of such activity on the part of Israel, asked the CIA -- and the DCI specifically -- several times whether the news reports were true. He was told they were not. McFarlane testified that if he had known that the Israelis had previously shipped arms to Iran it would have made him less responsive to later Israeli proposals to resume shipments. However, in his first cable to Shultz in the matter, he stated that it was obvious to him the Israeli channel into Iran had existed for some time. One of the NSC staffers who drafted the NSDD testified that he was aware of allegations that Israel was selling arms to Iran but discounted such reports because he believed they failed to offer conclusive evidence and because Prime Minister Peres had assured the U.S. that there was no such trade.

Private Parties

Documents and testimony indicate that Adnan Khashoggi and other international arms dealers, including Manucher Ghorbanifar, were interested in bringing the U.S. into an arms relationship with Iran, and had discussed this at a series of meetings beginning in the summer of 1984 and continuing into early 1985. These discussions reportedly included the idea of an "arms for hostages" deal in part as a means of establishing each country's bona fides. Khashoggi reportedly met with various leaders in the Middle East to discuss policy toward Iran during this same period.

In July 1985 Khashoggi sent McFarlane a lengthy paper he had written dealing with the political situation in Iran. McFarlane testified that he did not recall seeing these papers, but indicated the existence of prior "think pieces" Khashoggi had sent him on the Middle East. A staff member of the NSC testified that McFarlane gave the Khashoggi paper to another NSC staffer. Michael Ledeen, a professor at Georgetown University, and a part-time NSC consultant beginning in February 1985, appears to have played a key role in the initial contacts between the U.S. and Israel vis-a-vis Iran. According to Ledeen, while on a trip to Europe in April 1985, he spoke with a European intelligence official who had just returned from Iran. The official characterized the internal situation in Iran as more fluid than previously thought, and suggested it was time for the U.S. to take a new look at Iran. He said that the U.S. should discuss this with the Israelis, who the official believed were unusually well-informed about Iran.

According to testimony by McFarlane, Ledeen apprised McFarlane of a forthcoming trip Ledeen planned to Israel and asked whether he was interested in knowing whether Israel had any Iranian contacts. McFarlane testified that he responded affirmatively. McFarlane stated that he was aware that Ledeen was a friend of Israeli Prime Minister Peres. Ledeen testified that he talked to McFarlane in April 1985 about the possibility of raising contacts with Iran with the government of Israel and that McFarlane agreed, and requested specifically that Ledeen get Israel's perspective on fighting Iranian terrorism.

According to Ledeen, he traveled to Israel on 4-5 May 1985, and discussed the situation in Iran with Prime Minister Peres. Peres referred Ledeen to a retired Israeli intelligence official who agreed with Ledeen that both countries needed to work together to improve their knowledge of Iran. Ledeen testified that he reported his talks in Israel to McFarlane in mid-May, and that McFarlane subsequently arranged to task the Intelligence Community to produce a Special National Intelligence Estimate (SNIE) on Iran.

Secretary of State Shultz learned of Ledeen's activities and, in a message dated 5 June, complained to McFarlane that

Ledeen's contact with Israel had bypassed the Department of State. Shultz noted that Israel's agenda regarding Iran "is not the same as ours" and that an intelligence relationship with Israel concerning Iran "could seriously skew our own perception and analysis of the Iranian scene." He added that we "are interested to know what Israel thinks about Iran, but we should treat it as having a bias built in," and concluded that this initiative "contains the seeds of...serious error unless straightened out quickly." McFarlane responded in a cable of June 7 that Ledeen had been acting "on his own hook." With regard to the Iran initiative, McFarlane stated "I am turning it off entirely," but added "I am not convinced that that is wise."

On June 14, 1985, TWA Flight 847 was hijacked. According to testimony by White House Chief of Staff Donald Regan, McFarlane mentioned the possibility of requesting use of the Israeli channel to Iran in briefings to the President during the crisis. Regan said that this was his first awareness of any such contacts.

According to testimony by McFarlane, on July 3, 1985, David Kimche, Director General of Israel's Foreign Ministry and a former intelligence officer, contacted McFarlane and reported to him that Israel had succeeded in establishing a dialogue with Iran. Kimche stated that as a result of growing concerns with Soviet pressures, Iranian officials had asked Israel to determine whether the US would be interested in opening up political talks with Iran. According to McFarlane, Kimche stated that the Iranians understood US concerns regarding their legitimacy and therefore had proposed to use their influence with radical elements holding US hostages in Lebanon. Although there was no specific Iranian request for arms, Kimche admitted to the possibility that the Iranians might raise the arms issue in the future.

In a cable from McFarlane to Shultz on July 14, 1985, McFarlane stated that the proposal had also been raised several weeks earlier by Peres to Ledeen. In the cable, McFarlane said that he had instructed Ledeen to say we did not favor such a process. McFarlane also reported that Kimche, on instructions from Peres, had come to inquire about the US disinclination to pursue the initiative and ask McFarlane to take up the proposal with appropriate authorities. Then on July 14, "a private emissary" from Prime Minister Peres came to press the point.

McFarlane further noted to Shultz the advantages and disadvantages of the Kimche proposal, and gave a positive assessment of the Iranian channel based upon his confidence in his Israeli contacts. Finally, he stated that in the short term seven hostages might be released and therefore that he tended to favor going ahead.

Shultz responded to McFarlane by cable the same day, noting that the US should make a tentative show of interest without

making any commitment and should listen and seriously consider the idea of private US-Iran relations. Shultz stated that McFarlane should manage the initiative, while making it known to the Israelis that McFarlane and Shultz would be in close contact and full agreement at every step.

McFarlane testified that he visited the President in the hospital on either July 13 or 14, 1985. According to testimony by Regan, he also attended the meeting and believes that it occurred three days after the President's operation (i.e., July 16 or 17). Regan further testified that at the meeting McFarlane requested the President's authority to use an Israeli contact with an Iranian as a channel to higher-ups in Iran. According to Regan, McFarlane was vague about the specifics of the plan, and the President then questioned McFarlane on his confidence in the Iranian contact, Ghorbanifar. Regan testified that McFarlane defended Ghorbanifar on the basis of Israeli assurances and the President authorized McFarlane to explore the channel. Regan testified that it was his own opinion that the release of hostages would have been a collateral benefit of such an opening.

McFarlane testified that the plan he conveyed to the President was essentially what Kimche had suggested. McFarlane stated that he told the President that he would not be surprised if arms entered into the relationship later. According to McFarlane, the President was enthusiastic about the opening, hoped it would lead to the release of hostages, and authorized McFarlane to explore the plan.

In his testimony, McFarlane categorically denied any discussion of Ghorbanifar with the President, recalling that it was only in December that McFarlane became aware of Ghorbanifar's identity. It should be noted, however, that McFarlane made reference to Ghorbanifar in his July 14 cable to Shultz describing the proposal. In describing his contacts with the emissary from Peres and Kimche, McFarlane stated that the Iranian officials named in the context of the proposal are an ayatollah and "an advisor to the Prime Minister named Ghorbanifar."

Meanwhile, according to testimony by Ledeen, in early July he was called by Kimche who said a friend, Al Schwimmer, was coming to Washington and wanted to talk to Ledeen. Ledeen testified that he met with Schwimmer in early July. Schwimmer recounted a meeting he had attended a week or two before in Europe with Kimche, Khashoggi and Ghorbanifar. Schwimmer said Ghorbanifar had a lot of useful information about the situation in Iran and that Ledeen should meet him as soon as possible.

According to Ledeen he reported his meeting with Schwimmer to McFarlane. Ledeen told McFarlane he was going to Israel on vacation from mid-July to mid-August, and would, if McFarlane thought it appropriate, meet Ghorbanifar. Ledeen testified that McFarlane agreed.

Ledeen met Ghorbanifar in Israel in late July. Kimche, Schwimmer and Yaacov Nimrodi, an arms dealer and former Israeli military attache in Tehran, also attended. At the meeting Ghorbanifar gave what Ledeen described as "a great quantity" of information on Iran. Ledeen testified that Ghorbanifar said that if relations between Iran and the US were to improve, each side would have to send the other clear signals about its seriousness, and that the Iranian signal could be a release of the hostages in Lebanon (referring specifically to U.S. Government official William Buckley) and cessation or moderation of Iran-sponsored terrorism. According to Ledeen, Ghorbanifar said that for the US, the only convincing gesture would be to help Iran buy weapons it otherwise could not obtain.

According to documents received by the Committee, Kimche phoned McFarlane on July 30 to request an August meeting. According to testimony by Shultz, Kimche and McFarlane met at the beginning of August 1985, at which Kimche indicated that the Iranians not only wanted "a dialogue with America" but also wanted arms from the US and TOW anti-tank missiles from Israel. In return the Iranians could produce hostages.

The August-September Shipment of TOWs

On August 8, 1985 at a meeting of the National Security Planning Group in the White House residence, McFarlane, with Poindexter, briefed the President, the Vice President, Shultz, Weinberger, Regan, and Casey on the Kimche proposal to permit the sale of TOWs to Iran through Israel. There is a divergence of views as to whether approval was granted for the Israelis to ship arms to Iran either at that meeting or subsequent to it. There is also conflicting testimony on which of the participants supported the proposal, although opposition to the plan by Shultz and Weinberger is clear.

According to testimony by Regan, the President declined to authorize the sale of TOWs because of misgivings about Ghorbanifar's credentials and influence in Iran. Regan testified that the other participants agreed it was premature to get involved in arms sales to Iran. McFarlane, on the other hand, testified that Ghorbanifar's name never came up at the August meeting.

In a November 1986 interview in conjunction with the Attorney General's inquiry, Shultz "dimly recalled" a meeting at the White House residence in August on the subject of an Israeli shipment of TOWs to Iran. In his testimony before the Committee in December, however, Secretary Shultz said there was a meeting on August 6, 1985 where McFarlane briefed the President on an Israeli request for U.S. replenishment of Israeli TOW missiles proposed for shipment to Iran. In return, according to Shultz, the U.S. was to get four hostages and the entire transaction would be deniable. Shultz said he opposed the proposal, but the President did not make a decision.

According to testimony by McFarlane, the transfer was supported by Casey, Regan, and Bush while Shultz and Weinberger opposed it. McFarlane testified that subsequent to the meeting President Reagan approved the Israeli request to ship arms to Iran and to purchase replacements from the U.S. Presidential approval was on the condition that the transfers would not contribute to terrorism or alter the balance of the Iran-Iraq war. Although there is no written record of a decision at this time, McFarlane testified that the President informed Shultz, Weinberger and Casey of his decision.

According to his testimony, McFarlane believed at the time that the President's decision constituted an "oral Finding," which was formally codified on January 17 in a written Finding. McFarlane testified that when he and Attorney General Meese discussed the legality of an oral Finding November 21, 1986, Meese told him that he believed an oral, informal Presidential decision or determination to be no less valid than a written Finding. According to documents received by the Committee, McFarlane, when interviewed by Meese, made no mention of Presidential approval of the TOW shipment of August-September 1985 or of an "oral Finding." McFarlane did tell Meese that he told Kimche at a December 1985 meeting in London that the U.S. was disturbed about the shipment of TOWs, and could not approve it.

One White House Chronology prepared in November 1986 simply notes that McFarlane conveyed to Kimche a Presidential decision that a dialogue with Iran would be worthwhile. However, a second White House chronology presents conflicting accounts about whether the U.S. acquiesced in the Israeli delivery of 508 TOWs to Iran on August 30.

According to testimony by McFarlane, Israel did not feel bound to clear each specific transaction with the U.S. Israel proceeded on the basis of a general authority from the President based on a U.S. commitment to replace their stocks. Also, Israel's negotiations on hostages would not necessarily require U.S. approval.

According to testimony by Ledeen, when he returned to the US in mid-August, 1985, McFarlane informed him that the program of contact with Iran would go forward and that a test of the kind Ghorbanifar had proposed would occur. Accordingly, McFarlane told Ledeen to work out arrangements with Kimche for receipt of the hostages. McFarlane said he believed at this time that the sale of TOWs would secure the release of all US hostages.

Ledeen testified that he attended a meeting in Paris on September 4 with Kimche, Ghorbanifar, Schwimmer and Nimrodi. The discussions were in two parts: (1) technical questions about transfers of weapons from Israel to Iran and getting the hostages out of Lebanon; and (2) conversation with Ghorbanifar about

events in Iran. Ghorbanifar told them they would soon see public statements by leading Iranian officials making clear their intention to improve US-Iranian relations. Subsequently, according to testimony by Ledeen, in the second week of September on the anniversary of the Iranian revolution, the President and Prime Minister gave speeches in which the Soviets were attacked, but not the U.S. Ledeen saw this as "in accordance with" Ghorbanifar's prediction.

According to testimony from a senior CIA analyst, in early September, 1985 Ledeen provided him with information on Iranian-sponsored terrorism and on Ghorbanifar. According to this analyst, this was the first time Ledeen had identified Ghorbanifar by name to the CIA. According to testimony by Ledeen, the subject of Ghorbanifar's bona fides first came up in September 1985. However, Shultz testified that he saw an intelligence report on July 16, 1985, two days after he cabled McFarlane from Geneva, which indicated that Ghorbanifar was a "talented fabricator." Ledeen testified that he knew that the CIA was suspicious of Ghorbanifar, and that Ghorbanifar had raised the subject himself, in one of their meetings. According to testimony by Ledeen, it appeared to him that Ghorbanifar's credentials were well-documented.

The Committee received testimony and documents, however, indicating that the CIA had long been aware of Ghorbanifar's suspect character. In August 1984 CIA had issued a notice to other government agencies warning that Ghorbanifar was a fabricator. Documents indicate CIA was aware, of one instance in which Ghorbanifar had reportedly offered to provide intelligence on Iran to a third country in return for permission from the third country to continue the drug smuggling activities of Ghorbanifar's associates with the country concerned.

According to the CIA analyst, North called him on September 9, 1985 and requested increased intelligence collection on Lebanon and Iran. North told him there was a possibility of release of American hostages. In mid-September North asked him for intelligence collection on specific individuals in Iran who were in contact with American officials. North later gave him a very restricted distribution list for the intelligence collected, which specifically left out the Department of State. North said Shultz would be briefed orally by McFarlane. As the intelligence began to come in, this senior CIA analyst did not understand all the parties involved. However, he felt the intelligence clearly showed that hostages and some form of arms sales were involved.

According to documents received by the Committee, the shipment of 508 TOWs left Israel on August 30, 1985 transited a third country and arrived in Iran on September 13. North later asserted to Meese that he was totally unaware of the TOW shipment at the time it occurred. He believed he first learned of it in a November 25 or 26 conversation with Secord while in Tel Aviv. North also claimed that he did not know who had otherwise been

aware of the shipment. McFarlane told Meese that he thought he learned of the shipment from Ledeen. He then informed the President, Shultz, Weinberger, and Casey, but noted that the shipment had not achieved the objective of release of all the hostages. According to McFarlane, there was no official contact between the U.S. and Israeli governments regarding the shipment.

On September 15, 1985, the Reverend Benjamin Weir was released from his captivity in Lebanon. According to testimony received by the Committee, there was reason to believe at the time that Ghorbanifar played a direct role in the event. In addition, Ledeen testified that it was clear to the Israelis that there was a causal relationship between the September arms shipment and Ghorbanifar's role in it and the release of Weir. The view that the Iranians helped to secure Weir's release appears to have been shared by McFarlane.

It should be noted that the Committee also received testimony inconsistent with this description of events. Secretary of Defense Weinberger testified in response to a specific question that he knew nothing about any connection between the release of Weir and Israeli arms sales to Iran. Regan testified that McFarlane told the President -- in his presence -- that the Israelis, "damn them," had sold 500 TOWs to the Iranians without U.S. knowledge. Regan further testified that he, the President, McFarlane and Poindexter decided to "ignore" the incident except to "let the Israelis know of our displeasure" and "keep the channel open." According to Regan's testimony, this shipment of arms to Iran was not sanctioned by the U.S. government.

One White House chronology states that after discussing the matter with the President, it was decided not to expose the action, thus retaining the option of "exploiting the Israeli channel to establish a strategic dialogue."

The testimony of McFarlane is inconsistent with that of Regan. McFarlane in testimony, disputed Regan's characterization of his reaction to the TOW shipment and denied that the President had ever expressed disapproval of the Israeli action. McFarlane testified that the President was "elated" at Weir's release and denied that the President had ever instructed him to reproach the Israelis.

According to evidence received by the Committee, concurrently with the arms shipment and hostage release -- and perhaps connected with both -- was an airplane flight out of Tabriz, Iran which made an emergency landing in Tel Aviv. Ghorbanifar was very interested in this event, and a CIA analyst studying the situation was convinced that there was a correlation between Ghorbanifar, the aircraft flight to Tel Aviv, and the release of Weir. The Committee has not established that there was a correlation between these events.

The November 1985 Shipment of HAWKs

After the first shipment of TOWs, Ledeen continued to be active. He held meetings in the Fall of 1985 with Kimche, Schwimmer, Ghorbanifar, and Nimrodi. These meetings reportedly dealt with intelligence on the situation in Iran and who might want to cooperate with the U.S. Ghorbanifar also discussed the offer to get hostages released and the weapons that Iran needed, including HAWK missiles. Iran demanded an arms shipment before each release while the United States and Israel pushed for release in advance of any further arms shipments.

It is clear from testimony that the Iranians believed the new channel with the U.S. would be productive. For example, they appeared to expect to receive sophisticated weaponry such as Phoenix and Harpoon missiles at some point in the future.

Ledeen testified that he briefed McFarlane on these meetings. He stated that this was a promising channel to pursue but that if it continued on an arms for hostages basis, it would be difficult to determine Iran's motives. Ledeen also suggested that if the program were to continue there was a need to bring in an intelligence service. Ledeen said McFarlane had a "bad feeling" about the program and was going to stop it.

McFarlane testified that on November 17, while in Geneva for the Summit, he received a call from Israeli Defense Minister Rabin. Rabin requested assistance in resolving difficulties Israel was having in a shipment of military equipment through a European country onward to Iran. McFarlane told the Committee that he called Colonel North, briefed him on the President's August 1985 decision, and requested that he contact Rabin and offer assistance.

According to notes from the Attorney General's Inquiry, North said he suspected that the Israeli shipment McFarlane mentioned consisted of U.S. arms. Reportedly, North told Meese that he called Rabin and was told Israel was having difficulty in getting clearance for a flight to a European country. Rabin told him the flight involved moving "things" to support a U.S. rapprochement with Iran. North said he then contacted retired Air Force Major General Richard Secord, whom he described as a close personal friend, for assistance. Secord was to try to arrange a large cargo aircraft of neither U.S. nor Israeli origin for the flight.

McFarlane testified that North called him in Geneva to explain the problem. The Israelis had failed to make proper customs arrangements for a flight to the European country. Further, the only aircraft they had available was an El Al plane, which was believed unsuitable because of national markings and documentation. McFarlane testified that North told him McFarlane might have to call the Prime Minister of the European country to

get the necessary approval. McFarlane stated that he did so, explaining to the Prime Minister that a transfer from Israel to Iran was in progress and that the U.S. Government would appreciate assistance. North also contacted a CIA official and obtained CIA's support in trying to arrange the necessary flight clearances.

A White House electronic message from North to Admiral Poindexter on November 20 indicates that North had a detailed understanding of the HAWK plan by that time. This message indicates that Israel would deliver 80 HAWKs to the European country November 22 for shipment to Tabriz; five U.S. hostages would then be released to the U.S. Embassy in Beirut; $18 million in payment had already been deposited in appropriate accounts; retired USAF Major General Richard Secord would make all arrangements; and replacements would be sold to Israel. According to documents received by the Committee, North continued to keep Poindexter informed on a daily basis about plans for an impending shipment of HAWK missiles to Iran and the release of American hostages.

The Committee received evidence that McFarlane contacted Secretary of State Shultz and Donald Regan and advised them that hostages were to be released and some type of arms were to be transported to Iran by Israel. This evidence indicates that McFarlane told Regan and Shultz that Israel would buy replacements for these arms from the United States. While Shultz was advised that HAWK missiles were involved, Regan said that he was informed of this fact sometime later.

Regan testified that McFarlane informed the President in Geneva that some type of arms shipment was being considered, and that if the operation were successful, hostages might be freed. Shultz expressed reservations to McFarlane, but according to Shultz, was told by McFarlane that he had cleared it with the President.

After many communications between Washington and this European country, efforts to obtain flight clearances failed. Secord was central to the effort to obtain flight clearances. U.S. officials in the European country were instructed to expect to be contacted by a Mr. "Copp" and to cooperate with him. The messages between CIA Headquarters and the European capital indicate Secord was essentially directing the effort to make arrangements for the flight.

Several witnesses testified that North then asked the CIA to identify a charter aircraft that might be used. In response, CIA proposed using its proprietary aircraft and advised the company to accept this NSC related mission.

The CIA proprietary flew from Israel in the latter part of November, carrying 18 HAWK missiles identified as oil drilling spare parts. According to testimony received by the Committee,

there was speculation at the CIA that the cargo was actually arms. When queried by nations responding to requests for overflight clearances as to the nature of the cargo, the CIA office again asked North, who reaffirmed that the flight was carrying oil drilling equipment and was on a humanitarian mission. According to copies of cables received by the Committee, in order to overcome reservations of some countries to granting flight clearances, U.S. officials in certain cases were authorized to inform high host government officials that the humanitarian purpose of the flight related to hostages and that highest levels of the U.S. government would appreciate assistance.

According to his testimony to the Committee and memoranda for the record he prepared, it was on Saturday, November 23, that John McMahon, Deputy Director of Central Intelligence, was first informed of CIA's support role. In McMahon's view, the Agency was merely providing a secure channel ot communications to assist NSC personnel seeking flight clearances for the Israeli flight. According to the evidence available to the Committee, McMahon approved provision of this support, and asked for a full briefing on the next business day.

On November 25, McMahon learned that a CIA proprietary had flown the arms to Iran in support of an "NSC mission" without his knowledge or approval. According to McMahon, he instructed that no further CIA activity in support of the NSC operation was to be conducted without a Presidential Finding authorizing covert action. McMahon also directed that involved CIA officials brief the CIA General Counsel, Stanley Sporkin, on what had transpired.

Sporkin testified that he recalled meeting with CIA personnel in late November or early December at the DDCI's request, and learned from them that the CIA was involved in a shipment of arms to Iran. Later in the day, November 25, Sporkin informed McMahon that a Finding would indeed be necessary for such activity to be authorized. McMahon directed that a draft finding be prepared for the President's signature which would provide the necessary authority for the CIA's activity in support of the NSC Iran initiative.

This draft finding was prepared by Sporkin, approved by DCI Casey and delivered to Poindexter on November 26. The draft Finding authorized CIA to provide assistance to "private parties" seeking to free American hostages. It also contained language retroactively ratifying all previous activities undertaken by U.S. officials in pursuit of this effort and directed that the Congress not be informed until directed by the President.

Subsequent to the flight, no U.S. hostages were released. The Iranians were dissatisfied with the type of HAWK missile they received and believed they had been cheated. The Secretary of State later stated that at that point he had believed the operation had collapsed and expressed relief that it was over.

However, in the CIA, planning and support for future missions in support of the NSC operation continued. The CIA official who had responded to North's first request testified that he was responsible for this contingency planning and believed the direction from DDCI McMahon to cease support did not prohibit such efforts. Until mid-December, a series of messages relating to possible future missions was exchanged between CIA headquarters and U.S. posts in various European and Middle Eastern countries. Documents received by the Committee indicate that a variety of government officials, liaisons, and other sources were involved during this time.

The Committee received testimony that senior CIA officials made repeated calls to NSC staff in late November and early December urging that the draft November 26 Presidential Finding be signed. According to a memorandum for the record prepared by McMahon on December 7, CIA was informed on December 5 that the President had signed the finding and had directed the CIA not to inform Congress for reasons of safety of the hostages. Sporkin testified that one of his assistants had been informed by North that the finding had been signed and was in Poindexter's safe. CIA believed the December 5 finding contained the provision retroactively ratifying previous actions. However, the Committee has received no documentary evidence that any finding of November 26 or December 5 was ever signed.

At the end of November, according to McFarlane's testimony, he obtained the President's approval to go to London on December 8 to meet with Iranian intermediaries. A meeting of principals in the White House was scheduled for December 7 to discuss Iran.

The Presidential Finding

In an electronic message of December 4, North provided Poindexter with a status report on the situation. North's message stated that it was based on discussions held in Geneva between Kimche, Secord, Ghorbanifar and the Iranian contact. The message recounted Iranian unhappiness with the HAWK shipment in late November. It indicated that release of the hostages is tied to a series of arms shipments beginning later in December, and that North, Secord, Kimche and Schwimmer were to meet in London on December 7 to go over arrangements for the next shipments. It stated that North had gone over all the plans with the CIA official who had assisted in the November 25 flight. He indicated that the only officials fully informed about the longer term goals are McFarlane, Poindexter and North.

On December 7, the President met with Shultz, Weinberger, McMahon representing Casey, McFarlane and Poindexter to discuss the Iran initiative. Most participants who testified before the Committee believed there was a consensus at this discussion that McFarlane would inform the Iranians in London that the U.S. would not trade arms for hostages. Shultz and Weinberger both

testified that they left the meeting believing that the arms component of the contacts with elements in Iran was over.

However, at least one participant, DDCI McMahon, testified that there was no decision or consensus. He testified that the meeting was divided over whether to proceed with the Iran initiative, with White House staff supporting continuation and all others disagreeing. There also is disagreement in the Committee's record about whether McFarlane's meeting with the Iranians in London was discussed at the December 7 meeting, or what specific guidance was approved. Two participants did not recall any discussion of instructions McFarlane claimed to have received -- to make clear that the U.S. remained open to a political dialogue, but would not exchange arms for hostages.

McFarlane testified that prior to meeting the Iranians in London, he and North met Kimche, who urged the U.S. to be more patient and permit the Iranians to demonstrate their bona fides. According to McFarlane, he told Kimche his mission was "to close down" the operation. He and North then met with Kimche, Nimrodi and Ghorbanifar, to whom McFarlane made "emphatically" clear that the U.S. would engage in no more arms transfers. According to McFarlane, Ghorbanifar argued strongly for continued U.S. arms transfers, and McFarlane came away convinced the U.S. should not "do business" with Ghorbanifar.

On McFarlane's return, he reported to the President and others on his London meeting. According to Casey's written account of that meeting, McFarlane recommended that the U.S. not pursue a relationship with the Iranians through Ghorbanifar, of whom he did not have a good impression, but that we should work through others. Casey's memo said that "everyone" supported this idea, though it stated that the President "argued mildly" for letting the Israelis go ahead without any U.S. commitment except to replace arms they might ship. The memo indicated the President was concerned for the fate of the hostages if we stopped the discussions, and stated that Casey told the President that the contacts could be justified later as trying to influence events in Iran.

At this time, CIA sent a message through its channels to posts in countries involved in preparations for future missions, advising them that "the deal" was apparently off and everyone should stand down.

McFarlane resigned from the Government on December 11. He testified that he had no further involvement with the Iran matter during the period of January to April 1986.

In a memorandum of December 9, 1985 the day before McFarlane reported on his trip, North summarized the options on the Iran progam to Poindexter. North wrote that Ghorbanifar was a reliable interlocutor. He noted that the U.S. should gain operational control to avoid past problems experienced with

Schwimmer. He then posed five options: (1) allow the Israeli shipment of TOWs to go forward, with U.S. replenishment; (2) attempt to rescue the hostages; (3) allow Israel to make only a token shipment of TOWs as a sign of good faith; (4) do nothing; (5) issue a covert action finding and make arms deliveries ourselves through Secord. North indicated that there was little to lose by allowing Israel to go ahead with the delivery of TOWs.

Meanwhile, as a result of Ledeen's activities, the question of Ghorbanifar's bona fides as an intermediary arose again. Ledeen testified that, at Ghorbanifar's request, they met during a private trip by Ledeen to Europe. At this time, Ghorbanifar again provided information on developments in Iran and complained about his treatment by the CIA.

According to Ledeen, when he returned to the United States in late December 1985, he briefed DCI Casey and other CIA officials about his conversations with Ghorbanifar. He said he stressed to them that Ghorbanifar was a useful channel in gaining a political opening to elements in Iran, and that with proper precautions we should keep working with him. Subsequent to this discussion, Casey asked him to arrange for Ghorbanifar to submit to a CIA polygraph. Ledeen contacted Ghorbanifar abroad and obtained his agreement to the polygraph which was administered in mid January.

Ledeen also had Ghorbanifar visit Washington in late December. There Ghorbanifar met for the first time with CIA officials who were aware of the arms sale efforts. Ghorbanifar discussed many matters of interest to U.S. officials, but the CIA's past experience with him prompted caution. On December 23, Director Casey wrote to the President that Ghorbanifar's information "could be a deception to impress up. It is necessary to be careful in talking with Ghorbanifar." Casey told the President that the polygraph in January would help.

According to evidence received by the Committee, the polygraph indicated deception by Ghorbanifar on virtually all questions, including whether he was under control of the Iranian government, whether he knew in advance that no American hostages would be released as part of the November HAWK transactions, whether he cooperated with Iranian officials to deceive the U.S., and whether he independently acted to deceive the U.S.

According to testimony received by the Committee, the results of this polygraph, as well as the fact that CIA had instructed all its components in August 1984 to have no dealings with Ghorbanifar were made known to the White House in January, 1986. Nevertheless, the White House chose to continue to work with him and, according to one CIA witness, it was North who was responsible for keeping Ghorbanifar on the project after he failed the polygraph. A senior Directorate of Operations official testified that while CIA had suspicions about the cargo

on the November 1985 flight, it was not until these discussions with Ghorbanifar in early January that they knew that the aircraft carried arms. Other documentation submitted to the Committee, however, indicates that at least some CIA officials overseas were aware of the nature of the cargo much earlier, and at least one reported this back to headquarters.

In early January, 1986, Prime Minister Peres sent Amiram Nir, Terrorism Advisor to the Israeli Prime Minister, as an emissary to meet the President about the Iran initiative. Accordng to evidence received by the Committee, Nir urged the President and Poindexter to reconsider the transfer of arms to Iran for the release of hostages.

The Committee received copies of various draft findings prepared during early January. One finding, dated January 6, was signed by the President apparently after review and discussion with the Vice President, Regan and Poindexter. This finding instructed that the DCI not notify Congress until otherwise directed by the President. The cover memorandum attached to this finding, written by North, stated that he had spoken to Casey about this and Casey concurred. According to testimony and documents received by the Committee, prior to the signing of the January 6 finding, Casey, North and Sporkin had met to discuss it. Sporkin testified that he recommended that the revised finding specifically refer to release of the hostages, but North objected. The purpose of the program was described as helping to establish a more moderate government in Iran. It was agreed not to refer to hostages because of the anticipated objections from Shultz.

On January 7, the President met in the Oval office with the Vice President, Shultz, Weinberger, Casey, Meese, and Poindexter to discuss the Iran program. According to participants who testified, two officials -- Shultz and Weinberger -- argued strongly against providing arms to Iran. According to these participants, the President wished to keep the channel open, and left unresolved the issue of providing arms to Iran. However, this Committee received conflicting testimony as to whether a finding was discussed and, if so, what the content of that discussion was.

Some participants clearly recall discussion of a finding, approval by the President of a finding to authorize the program. They also recall a discussion that withholding of notification of Congress would be legal. Others do not recall specific discussion of a finding, but agree the thrust of the meeting was to go ahead with the Iran initiative. There was little discussion of the issue of notification of Congress, but the Attorney General testified that his impression was that the operation was to be completed within a short time, 60-90 days.

Subsequent to the January 7 meeting, legal analysis of the finding and various means to implement the program continued.

The Department of Defense insisted that the sale of arms by the Defense Department to a foreign country, be it Iran or Israel, could not be hidden from Congress under the law. This argument applied not only to future direct or indirect sales to Iran, but also to the replenishment of Israel's TOW stocks, which had to be done under this program because Israel could not afford the replacement cost for the TOWs. The solution was to have DoD sell the arms to the CIA under the Economy Act, an approach that CIA General Counsel Sporkin had urged on legal grounds despite the Agency's desire not to be involved. The CIA could then resell the arms, as part of a covert action operation, to a private company that in turn would sell them to Iran and (for the 508 TOWs) Israel. A small change in the January 6 Finding, adding the words "and third parties," sufficed to authorize this new approach.

A final meeting was held in Poindexter's office on January 16 to review a final draft of the finding. Attending were Poindexter, Casey, Meese, Sporkin and Weinberger. Weinberger again voiced opposition to the program. There was also discussion of the question of notification of Congress.

The Attorney General testified that he gave his opinion that withholding notification was legal, on the basis of the President's constitutional powers and justifiable because of jeopardy to the hostages. Meese testified that it was his recollection that Congress was to be notified as soon as the hostages were freed Sporkin testified that his recollection was that the participants agreed to defer notification of Congress until release of the hostages, even though they understood this might mean a lengthy delay.

According to a memorandum from North to Poindexter, the final finding was presented to the President on January 17 for signature. Poindexter orally briefed the President on the contents of the finding, in the presence of the Vice President and Regan. According to the North memorandum, Poindexter indicated that in the opinion of the Attorney General, the Finding would provide CIA with the necessary authority to transfer arms legally. The memorandum noted that both sides had agreed that the hostages would be released upon commencement of the arms shipments. It stated that if the hostages were not released after the first shipment, the remaining shipments could be suspended, or redirected to other Iranian groups later. It recommended against notifying Congress. The memorandum contained a notation that the President approved. The Committee has received a copy of the signed finding.

Weinberger testified before the Committee that later that day he received a call from Poindexter informing him of the President's action. Weinberger testified that he instructed his military aide, Major General Colin Powell, to arrange for transfer of the weapons under the Economy Act to the CIA, and that the matter was to be closely held at the direction of the President.

General Powell had had previous discussions with North about the program and about Israel's problems in getting replacement TOWs. Assistant Secretary Armitage testified that Weinberger gave his aide authority to inform Armitage, which was done at a later date. Armitage testified that Deputy Secretary Taft later told him that in April Taft had seen the finding in Poindexter's office, where it was kept. According to Armitage and a CIA official, Powell worked with Major General Vincent Russo of the Defense Logistics Agency to provide the materiel securely and without any loss of funds for the Army.

CIA's Deputy Director for Operations testified that he was informed by the DDCI or the DCI that CIA was going to provide support to a White House initiative which had two aims: (1) strategic dialogue with Iran; and (2) the release of the hostages. On January 18, 1986, he and two other CIA officials, accompanied by the CIA General Counsel, met with North and Poindexter at the White House where they were told that the President had signed a Finding the day before and that CIA would provide support for the activity, which was to be run out of the NSC. They were also told, according to testimony, that the Finding stipulated that Congress was not to be informed because of the sensitivity of the hostage situation. Documents received by the Committee indicate that on January 21, the CIA was asked to assist LTC North in preparing for a meeting in Europe with Ghorbanifar. They did so later that day.

The February Shipment of TOWs

According to documents received by the Committee, full-scale implementation of the January 17 Finding began immediately. LTC North flew to London to brief and negotiate with Ghorbanifar, who was told what the United States was prepared to do as a sign of good faith and interest in a long-term relationship. He was told particularly that the United States would provide intelligence on Iraqi positions in the war zone. Ghorbanifar also was told that more TOW missiles would be sold to Iran and that the unwanted HAWK missiles would be picked up and removed from Iran in connection with the first delivery of 1,000 TOWs. (Then-General Counsel Sporkin later told Attorney General Meese that a planned European meeting that was discussed on January 18 never came off).

According to documents received by the Committee, by January 24, LTC North had prepared a detailed plan of the program. The plan provided for: provision of intelligence samples to Iran; the financing and delivery of 1,000 TOW missiles to Iran, to be followed by the release of all U.S. hostages and 50 Hizballah prisoners held by Lahad in southern Lebanon, and the return of HAWK missiles to Israel; and the financing and delivery of 3,000 more TOWs for Iran and 508 TOWs for repayment to Israel. Secord was to be in charge of aircraft requirements. The plan included a prediction that Khomeini would step down on February 11, the

anniversary of the Iranian Islamic Revolution; Ghorbanifar was telling U.S. officials that other senior Iranians were urging Khomeini to do this so as to ensure a smooth transition. A memorandum from North to Poindexter contains a "notional timeline" and lists the persons who were fully briefed on the plan: in the NSC, Poindexter, North and Donald Fortier; in CIA, Deputy Director McMahon (as Director Casey was out of the country), the Deputy Director for Operations, one division chief, and one other official, on the outside, Richard Secord; and in Israel, Amiran Nir and Prime Minister Peres. The NSC's Executive Secretary later testified that he was kept out of the program throughout.

North's plan called for intelligence samples to be given to Ghorbanifar in Europe on January 26, 1986. According to testimony and a cable from Deputy Director McMahon to Director Casey, McMahon argued strongly with Poindexter that this should not be done, both because Ghorbanifar could not be trusted and because intelligence could give Iran an advantage in the war; but, McMahon testified, Poindexter insisted, and he obeyed.

According to testimony of Robert Gates, who was Deputy Director for Intelligence at the time, a meeting was held on January 25 at CIA to discuss preparation of intelligence material which was to be passed to the Iranians. Participants testified that the meeting was attended by officials from CIA and LTC North from the NSC. Gates testified that he objected to the release of some specific intelligence relating to Iraq but that he was overruled by the NSC, and CIA was directed to prepare the intelligence material. A CIA official was directed to take the intelligence sample to Ghorbanifar.

The intelligence material was given to Ghorbanifar in a meeting held in Europe in late January, according to testimony and documents received by the Committee. Ghorbanifar complained bitterly about his polygraph and argued as he had done in Washington on January 13, that his Iranian contacts could be of great use to the United States. (The CIA official testified that in early February, the whole arms sale plan was discussed at a White House meeting that included North, Secord, Deputy Assistant Secretary of Defense Noel Koch, and two CIA officials. The Committee found no other indication of a meeting at this time.)

According to documents received by the Committee, North's "notional timeline" for the Iran arms sale program provided for a funding mechanism in which Iranian funds would be put into an "Israeli account" in Switzerland and then transferred to an account in the same bank that was controlled by Secord. Secord's account manager, in turn, would transfer enough funds to the CIA to cover the actual cost of the arms and transportation. Those funds would be transferred by the CIA to a Defense Department account, at which point DoD could begin to move the materiel to a staging area. According to testimony received by the

Committee, on January 21 North tasked the CIA to open a Swiss bank account for their part of the funding chain. According to testimony by CIA officials, CIA personnel decided that the fastest and most secure mechanism would be to use an existing account that also contained funds for an unrelated operation. A CIA official gave the number of that account to North; it was used for several months, until a separate account was created in a routine manner. CIA testimony indicates that there was no commingling of funds between the two projects that used the same bank account for these months. Testimony and documents also indicate that, in practice, DoD needed only an assurance that CIA had the requisite funds in its possession. Actual payment occurred months later, after DoD had formally billed the CIA for the arms.

On January 18, MG Russo was tasked to provide 3,504 TOW missiles to CIA upon certification that CIA had the funds set aside. On February 7, the Army began to consider whether a provision of the Intelligence Authorization Act for FY 1986 required congressional notification of this transfer of arms to CIA. On the 13th of February, the Army's Office of the General Counsel determined that congressional notification was the responsibility of the CIA, rather than the Army. A note of March 5 from MG Russo to MG Powell conveyed Russo's belief that CIA had this responsibility and said that CIA was fully aware of this. In the meantime, the Army had given CIA a price of $3,515,000 for 1,000 TOWs.

On February 12 the CIA notified the Army that funds were available, and on February 13 the TOWs were turned over to the CIA. The 1,000 TOWs were shipped to Israel on February 15-16, and half of them were flown to Iran on February 17. The plane that delivered the remaining TOWs, and picked up the 18 HAWKs and returned them to Israel on February 18. Testimony indicates that Khashoggi received four checks for $3 million each from Ghorbanifar, and that $1 million went to the investors as interest, while another $1 million covered expenses and profit.

According to documents and testimony received by the Committee, the next step was for a second set of intelligence materials to be given to Ghorbanifar in Europe in mid-February. (This meeting was originally scheduled for early February, and this date was used in one White House chronology prepared in November 1986; it also appeared in Director Casey's testimony on November 21. The Committee has no other indication that a meeting took place at that time.) CIA prepared, with some reluctance, according to CIA witnesses, the intelligence material that was provided to Iran. At one point, according to testimony and documents, North asked Poindexter to urge Director Casey to provide the needed material.

The meeting with Ghorbanifar took place a short time after the first half of the 1,000 TOWs had been delivered to Iran. The

U.S. side included North and Secord, with Albert Hakim, an Iranian-American and business associate of Secord, as interpreter. The intelligence was given to Ghorbanifar, and there was discussion of the common Soviet threat that both Iran and the United States saw in the region.

Later in February, the same Americans met with Ghorbanifar and an Iranian official. Before this meeting, certain Hizballah prisoners were expected to be released; the capture of two Israeli soldiers by Hizballah in mid-February derailed any such expectations. The meeting with the Iranian official was not very successful. North reported by memo to McFarlane that Iran shared the American concern about the Soviet threat, but that their distrust of the United States was also very great. In an electronic memorandum to McFarlane, North stated that Ghorbanifar's translation of his remarks had distorted much of what North had said and that this was a particular problem. A later North memo stated, moreover, that "it became apparent that our conditions/demands had not been adequately transmitted to the Iranian Government by the intermediary. According to testimony received by the Committee, the Iranian official indicated that Iran especially needed spare parts for its HAWK anti-aircraft missile systems, rather than just more TOWs. The U.S. side took his request and ordered the second half of the 1,000 TOWs to be delivered; the Iranian agreed to consult with his superiors on the prospects for a higher-level meeting and to return for further meetings. The 500 TOWs were delivered in late February; no U.S. hostages were released. North later wrote that it was agreed at the February meeting that the hostages would be released during a high-level meeting in Iran, after which the U.S. would sell Iran 3,000 more TOWs. Regan testified that the President was informed of the sale of the 1,000 TOWs to Iran.

According to documents received by the Committee, in the wake of the February meeting with the Iranian official, North remained confident that the hostages would be released shortly. He proposed that McFarlane be sent to a meeting in Europe the next week, but found both Poindexter and Casey unenthusiastic, so he appealed to McFarlane for help with Poindexter. By the next day, Poindexter had agreed that McFarlane should go to Europe for the meeting. Shultz testified that Poindexter showed him the terms of reference that McFarlane would be given, which Shultz approved. Shultz testified that he was told the hostages would be released at the time of the meeting.

Evidence received by the Committee indicates Director Casey may have agreed to another meeting with the Iranian official. The talking points prepared for him the day Poindexter showed the terms of reference to Shultz indicate great concern over who would attend that meeting. The role of interpreter was particularly troubling. Ghorbanifar had been the original interpreter, but the CIA retained severe doubts of his reliability. Although one CIA official had been in close contact

with him and had advised working more closely with him, others indicated that Ghorbanifar continued to be untrustworthy. The use of Hakim as an interpreter was preferable, but CIA was concerned over Hakim's possible private interests in arms deals with Iran. Casey proposed that a retired CIA officer who still consulted for the Agency be brought on as interpreter and as a knowledgeable advisor to the program. This was done in early March.

At the end of February, Israeli Prime Minister Peres wrote to President Reagan encouraging him to continue his efforts to gain a strategic opening in Iran and pledging to assist in this effort. Director Casey proposed that the President call Peres to reassure him that the program would continue and to thank him for Israel's assistance. His talking points also argued, however, that the next meeting should be U.S.-Iranian, without a direct Israeli role.

The McFarlane Mission to Tehran

In the period of March through May, 1986, all efforts in the Iran arms sale program were directed at arranging a high-level meeting between U.S. and Iranian officials. These efforts led to the McFarlane mission to Tehran in late May and the associated transfer of HAWK missile parts to Iran. Throughout this period, no hostages were released.

In early March, Ghorbanifar asked for another meeting with U.S. and Israeli officials in Europe. Ghorbanifar was demanding that the U.S. sell Harpoons and 200 PHOENIX missiles to Iran, which the U.S. Government was not prepared to do. One CIA official noted that North was planning to take a hard line with Ghorbanifar, while Israel was possibly providing additional non-U.S. arms on the side to move the process along.

The CIA officer brought on as an interpreter was briefed on the program just before leaving for Europe. His testimony indicated that he was told this was an NSC operation, with CIA providing required support. The CIA officer had known of Ghorbanifar in past years, and testimony indicates that he was horrified when he learned that this was the channel being used by the U.S. Government.

At the meeting in early March, Ghorbanifar conveyed the information that senior Iranian officials agreed to a U.S. delegation visiting Tehran for negotiations. He indicated that 240 types of spare parts for the HAWK missile system would have to be provided by the United States, but said that the arrival of the U.S. delegation in Tehran with half of the parts would result in the release of all the hostages. Testimony indicates that prices for the HAWK parts were not discussed. North later wrote that the U.S. team emphasized the February understanding that deliveries would not preceed the hostage releases. They deflected the demand for PHOENIX and Harpoon missiles by arguing

that Iran's launchers for the missiles were inoperable. On March 11, according to Secretary Shultz's testimony, Poindexter told him that a McFarlane trip to Europe was off; this was ascribed to reservations on McFarlane's part.

During the first or second week of March, Gates asked analysts to prepare briefing materials on the Soviet military threat to Iran for use by McFarlane in briefing the Iranians. A week later, other CIA analysts met with Gates and some of the participants in the early March meeting with Ghorbanifar. They were provided a list of Iranian intelligence requirements regarding Iraq and they discussed how to respond to it. The tasking and discussions in early March eventually led to the materials that CIA would hand over in mid-May and that would be used in Tehran in late May.

In mid-March, Ghorbanifar visited Tehran. He told U.S. officials that he had met with several high officials and that the meetings had been difficult. According to a CIA official, Nir, with whom Ghorbanifar also spoke, said Iran's proposals were still unacceptable; Nir worried that Ghorbanifar might be losing credibility with the Iranians and urged U.S. officials to work more closely with Ghorbanifar. Ghorbanifar had been ill and was also having money problems, which he pressed the U.S. government to help solve. Nir indicated that he and his associates were helping out Ghorbanifar financially.

In late March, U.S. officials were told that Ghorbanifar was especially upset. An "NSC consultant," probably Ledeen, told one official that Ghorbanifar suspected the CIA of entering the office of one of his associates, Roy Furmark, as well as the home of a friend in California. Ghorbanifar told both Nir and a CIA official that Albert Hakim had tried to convince Ghorbanifar's Iranian channel to leave Ghorbanifar out of the negotiations. To demonstrate their support for Ghorbanifar, U.S. officials asked him to return to Washington for another meeting.

U.S. officials met with Ghorbanifar in Washington on April 3 and, less formally, the morning of April 4. Discussions of the proposed visit to Iran covered a wide range of detailed issues: where the meetings would be held; how the U.S. delegation would fly in, and with what passports; what communications they would have; what arms or material they would bring to sell to Iran; and how the delivery of the arms and the release of hostages would be orchestrated. In addition to the 240 types of HAWK parts, Iran wanted HAWK radars and mobile I-HAWK missile batteries, as well as more TOW missiles. The Soviet threat to Iran and Afghanistan was an area of agreement and Ghorbanifar said that Ayatollah Khomeini was going to issue a "fatwa" against hostage-taking. The United States insisted that all the hostages be released before the 240 HAWK parts were delivered, and only then would it discuss further arms deals.

It is unclear whether the subject of devoting some profits to

the contras arose at this meeting. One memorandum indicated that support for the mujahedin in Afghanistan was mentioned. Another memo indicated that Ghorbanifar discussed using the profits to support "Afghan rebels, etc." A third, undated memorandum apparently referring to this April meeting indicated that Ghorbanifar said the United States could do the same with Nicaragua.

A memorandum of April 4 set forth the results of the Washington meeting. The U.S. delegation visit was scheduled for April 20. Before then, Iran would pay $17 million into an Israeli account; $15 million of that would be moved into "a private U.S. corporation account." Of that amount, $3.65 million would go to the CIA to cover HAWK missile parts. This price, which testimony indicates the Defense Department had been developing since March, was for those parts that DoD could find in its stocks. Several hours after the arrival of the U.S. delegation, which was to be met by Majlis Speaker Rafsanjani, the hostages would be released; eight hours later, the HAWK parts would be delivered. The memo states that broader U.S. interests in the Soviet threat and in ending the Iran-Iraq war were made clear. Ghorbanifar had proposed that if further agreements were reached to sell TOWs to Iran, a portion of those would be devoted to the Afghan rebels. This memorandum also states that $2 million of the proceeds would finance Israel's purchase of 508 TOWs to replace those sold to Iran in September 1985, and that "$12 million will be used to purchase critically needed supplies for the Nicaraguan Democratic Resistance Forces." The memo is discussed further in the section on the diversion of funds.

Attached to the April 4 memorandum were draft "terms of reference" for use by McFarlane in a high-level meeting with Iranian officials. Testimony and a retrospective memorandum for the record indicate that North and Howard Teischer of the NSC staff prepared the draft in late March, and that it was then revised by Donald Fortier and reviewed by Admiral Poindexter for submission to the President. The "terms of reference" attached to the April 4 memorandum are the same as those in documents of six weeks later, when the mission to Tehran finally took place.

After his return to Europe, Ghorbanifar worked on the details of the planned talks and on raising the "bridge" loan funds needed to start the arms transfer process in light of Iran's refusal to pay until it had received and inspected the materiel. Ghorbanifar told a CIA official that LTC North had promised to sell Iran two HAWK radars, as well as the 240 types of parts Iran had requested. He also described his progress in gaining support for the visit among high-level Iranian officials whom he intended the American delegation to meet.

In mid-April, further difficulties arose. Although Ghorbanifar assured the United States that Iranian officials were prepared to meet with McFarlane, he also reported that Iran was insisting upon not releasing all the hostages before the HAWK

parts were delivered; Iranian intransigence was increased, he said, by the realization that McFarlane could not possibly carry all the parts on the plane that would take him to Iran. Iran also continued to insist upon HAWK radars, as well as the other parts.

On April 14, the United States attacked Libyan targets in response to Libyan involvement in terrorism directed at U.S. interests. In the aftermath of that action, hostage Peter Kilbourn was killed by his captors, reportedly at the behest of Libyan leader Muammar Qadhafi. Some press stories have suggested that the U.S. attack resulted in delays in the mission to Iran. A White House chronology indicates that instead Iran wanted to accelerate planning for the mission, so that it would not be accused of involvement in the Kilbourn death. The Committee has found no other documentation or testimony indicating that these events had an impact on the arms sale program.

The Defense Department, meanwhile, continued to track down the HAWK spare parts. CIA formally requested 234 types of HAWK parts in mid-April, and two HAWK radars later in the month. By the end of April, the cost of the HAWK spare parts that the Army had located was fixed at $4.4 million, including transportation.

On April 22, the U.S. Customs Service announced several arrests in a major "sting" operation involving the sale of arms to Iran; an Iranian arms dealer, Cyrus Hashemi, had agreed to cooperate with Customs authorities. Ghorbanifar, who was in Switzerland, was jailed for a day. According to testimony of the CIA consultant, officials surmised that he had been held because he was an investor in the failed scheme. This development seemed likely to make Ghorbanifar (and Iran) more eager to do business through the one reliable channel to the United States, but it also made Iran ever more insistent upon not giving Ghorbanifar the money in advance.

By late April, the lack of progress in arranging the high-level visit to Iran had led the U.S. officials to decide that the operation would be shut down unless there was movement within 2-3 weeks. A CIA official wrote that the differences between the United States and Iran appeared intractable. He suggested the sale of two HAWK radars to Iran and renewed emphasis upon a long-term military supply relationship with Iran. The CIA official noted that Israel was eager for such a relationship and might already be quietly supplementing U.S. sales. Then Ghorbanifar and/or Nir apparently proposed that the mission to Iran be only a preliminary meeting. U.S. officials rejected this idea, noting that if Iran understood and abided by what had been agreed to in February, there would be no need for any preliminary meeting. On May 5, a CIA official warned Director Casey and the Deputy Director that "the White House initiative to secure release of American hostages in Lebanon remains dead in the water."

At the end of April, documents indicate that the U.S. Embassy in London became aware of the fact that Ghorbanifar and Khashoggi had approached a major British arms dealer in hopes of getting a $50 million line of credit for arms sales to Iran with U.S. approval. The British dealer had been assured by Israeli officials that this was a White House operation and did indeed have U.S. approval. U.S. Ambassador Price reported this to the Department of State on May 1. The next day, Under Secretary Armacost sent Secretary of State Shultz a cable at the Tokyo economic summit; Armacost summarized Ambassador Price's report which noted that "the State Department has been cut out." On May 3, Admiral Poindexter spoke with the ambassador and recommended that he discourage the British dealer from getting involved. The ambassador's memo on the call indicates that Poindexter assured the ambassador that there was only a "small shred of truth" in the claim that the White House approved of this operation. Meanwhile, in Tokyo, Secretary Shultz, according to his testimony, tried to find Poindexter to get an explanation; being unable to find him, Shultz went to Chief of Staff Regan instead. Shultz testified that he recommended that Regan speak to the President and end the matter once and for all. According to Secretary Shultz, he was later told by both Admiral Poindexter and Director Casey that the operation had ended.

In early May, just a few days after the incident just recounted, U.S. officials again met with Ghorbanifar in Europe. Ghorbanifar assured them that financing for the arms sale would be no problem. Testimony and documents indicate that Ghorbanifar frequently left the talks to call Tehran. On one occasion, according to later testimony, the CIA officer who was serving as interpreter joined in the talks with Tehran to explain that the United States could not or would not bring all the HAWK spare parts at the same time that the McFarlane delegation arrived. The Iranian at first was unwilling to agree to the release of all the hostages before all of the parts arrived, but it was agreed that McFarlane's plane would bring as many of the parts as possible, with the rest to arrive after release of the hostages. A White House chronology indicates that at this meeting, Israel privately indicated to the United States that it wanted the replacement TOWs that the April 4 memo indicated would be funded by this sale. The price for the HAWK spares that was discussed at this meeting was roughly $22.5 million, plus over $20 million for the HAWK radars, but the CIA officer who attended the talks later testified that he was not present when such matters were discussed. However, testimony indicates that LTC North discussed the overpricing problem with another CIA official. And the CIA officer who attended the talks wrote that the dispute over how many HAWK parts to deliver before the release of hostages remained a problem. A CIA official has testified that reporting on these matters was available to the McFarlane delegation.

Immediately after the Europe meeting in early May, U.S. officials moved to get ready for a trip to Tehran. The Defense

Department was told to be ready to transfer the HAWK spare parts. Prices were quoted as $4.4 million for the HAWK parts and transportation; $1.8 million for the 508 TOWs; and $6.2 million for the two radars.

On May 15, according to testimony, Adnan Khashoggi paid $15 million into the account of Lake Resources. CIA officials were later told that Khashoggi had obtained this money from an Arab investor and two Canadians. Testimony indicates that Khashoggi was given post-dated checks totalling $18 million, which included 20 percent interest for a one-month loan. Testimony and documents indicate that CIA officials were told in October 1986, that at the May meeting of Khashoggi and Ghorbanifar, Ghorbanifar stated that the high price was because the money was being used to support the contras.

Director Casey has testified that on May 15, the President approved the McFarlane mission to Tehran. On the same day, according to a later CIA letter to the Committee, the Hyde Park Square Corporation deposited $6.5 million in the CIA's account in Switzerland, to cover both the HAWK parts and the 508 TOWs. (A White House chronology lists the date as May 16, and a different CIA memo cites May 20 as the date. Director Casey's testimony follows the White House chronology. The May 20 date may reflect a second deposit that was expected for the HAWK radars.) On May 16, the CIA notified the Army of the availability of funds for both the HAWK parts and the TOWs. The TOWs were transferred to the CIA on May 19 and shipped to Israel on May 23. According to testimony, the HAWK parts were also supposed to be shipped to Israel during this period. On May 20, the CIA certified the availability of funds to test, inspect and service the old HAWK radars; the next day, it received more detailed cost information on the radars.

A CIA official spoke with Ghorbanifar on May 18 and was assured that the hostages would be available when the Americans arrived in Tehran. He was also assured that McFarlane would meet the top three political officials in Iran (i.e., President Khamenei, Prime Minister Musavi and Majlis Speaker Rafsanjani). Three days later, Ghorbanifar thanked the official for information relayed to him by Richard Secord and described the greeting and accommodations that the U.S. team could expect.

McFarlane has testified that he received pre-trip briefings during the week of May 19. He indicated that he was assured by Admiral Poindexter that Secretary Shultz was involved in the planning for the trip and that Secretary Weinberger had been apprised. His terms of reference, emphasized long-term U.S. and Iranian common interests in opposing the Soviet threat. They accept the Iranian revolution as a fact, but note the need for Iran to end its support of terrorism and hostage-taking and its efforts to undermine American interests. They indicate that the United States wants neither an Iraqi victory or an overwhelming Iranian victory in the Iran-Iraq war. McFarlane's terms of

reference show him to offer the prospect of a limited military supply relationship, but say that this depended upon whether Iran and America's convergent or divergent interests come to loom larger in the overall picture.

The McFarlane delegation traveled from the United States to Iran via Europe and Israel on May 23-25. In Israel they took on a single pallet of the HAWK missile parts that Iran had requested. McFarlane later testified that Secord met the plane in Israel, but that McFarlane identified his role primarily in connection with the aircraft. McFarlane's delegation included LTC North, Howard Teischer (North's formal superior on the NSC staff), the CIA officer who served as an interpreter, and others, including U.S. communicators. McFarlane told Attorney General Meese that he brought no inscribed Bible and that LTC North brought the cake that was mentioned in Iranian reports. McFarlane later testified that he carried his own passport, and did not carry a cake or a Bible. Teischer and the CIA officer testified that North brought the cake, and the CIA officer remembered a Bible as well. Documents indicate that, whether or not McFarlane actually carried a false passport, one was prepared for him and was returned after the trip with a one-week Iranian tourist visa and an entry cachet. Teischer later testified that he took detailed notes on the meetings, and the interpreter later wrote a memorandum on the meetings. This report's treatment of the Tehran discussions is based upon the latter source, plus McFarlane's cable to Poindexter.

The Tehran discussions got off to a slow start on May 25, with the arriving delegation having to wait some time before any Iranian officials greeted them. They were taken to a Tehran hotel where, late that afternoon, the first session was held. The Iranians listed past sins of the United States and demanded that the U.S. Government do more than had been agreed in February. The U.S. delegation insisted that the February schedule be adhered to.

On the 26th, there were, again, no discussions until late in the afternoon. The interpreter later noted that the Moslem holy period of Ramadan, during which one fasts during daylight hours, may have interfered with normal schedules. McFarlane began the discussions by presenting the U.S. position, emphasizing the long-term interests as stated in the terms of reference. This was reasonably well received, but the Iranians then presented a list of demands from the captors of the U.S. hostages. They also accused the United States of going back on its commitments, because McFarlane had not brought half of the HAWK missile parts. Members of .the U.S. delegation were surprised at this allegation, but they subsequently learned that Ghorbanifar had given the Iranians the impression that they would bring half of the HAWKs with them. The U.S. delegation continued to insist that the hostages must first be freed before any further delivery of arms.

When no progress could be made, McFarlane threatened to end the discussion and leave. The Iranians protested that this was not proper behavior; McFarlane then retired from the negotiations, indicating that he would return if there were an agreement. The Iranians then emphasized how risky it was for them to have this set of discussions, and the American team came to the conclusion that top-ranking officials -- particularly Khomeini himself -- had not been informed of the meeting.

In a message to Admiral Poindexter after the May 26 session, McFarlane indicated that the Iranians were saying the right generalities and continually assured the U.S. team that they were making progress on the hostages. But McFarlane, while suggesting the sorts of future steps that the U.S. and Iran could take, insisted upon concrete acts from Iran before such steps could be taken. He wired Poindexter that the Iranians had produced a competent negotiator to lead their team on the second day, but that McFarlane had remained outside the negotiations to demonstrate the need for more than rhetorical progress.

On May 27, it appeared to the U.S. team that the Iranians were stalling, although the Iranians did drop nearly all of the Lebanese demands that had been raised the previous day. The American team drafted an agreement that became the topic for discussion that evening. At midnight the Iranians broke to caucus among themselves. At about 2 a.m. on the 28th, the chief Iranian official asked to see McFarlane. They asked for more time to gain control of the hostage situation and obtained assurances that the remainder of the HAWK parts would arrive within a few hours of the release of the hostages. McFarlane gave them until early the next morning, claiming that he had instructions to leave on the evening of the 27th. In a second message to Admiral Poindexter, McFarlane indicated that his discussions had been low-key and that the common interests between the two countries had been understood. The Iranian official had clearly been told, however, that the balance of the HAWK parts would be forwarded only after the hostages were released. McFarlane recommended that, despite the vastly improved tone in the discussions, the President authorize him to leave on the 28th unless there were clear evidence on an impending hostage release. McFarlane added that he had told the Iranian that further discussions could be arranged after the visit.

On the morning of May 28, one of the Iranians asked whether the United States would settle for two of the hostages to be released before the delivery. McFarlane replied that although the U.S. team was departing, the delivery would not be called off until 9:30. There was no sign of an impending release, however, and the President gave McFarlane authority to decide when to leave. The U.S. team left at 9. A later White House chronology, drawing upon McFarlane's messages, stated that despite Iran's unwillingness or inability to obtain the release of the hostages, the visit "established the basis for a continuing relationship"

and the CIA officer later noted that the U.S. team did meet senior Iranians. One NSC staff member later testified, however, that McFarlane was not pleased with the results.

The CIA officer who served as interpreter later testified that Ghorbanifar had told him at one of the sessions that other Iranians might protest the price of $24 million for the HAWK spare parts. Ghorbanifar, according to this testimony, asked the CIA officer to uphold that price. The CIA officer says that he then spoke to LTC North who could not explain it, and both approached another delegation member about the matter, again without obtaining a satisfactory explanation.

June-September, 1986

According to testimony by McFarlane, on May 29 he returned from his mission to Tehran reinforced in his belief that the sale of arms was a mistake and that it ought to be terminated. One NSC staffer testified that the word quickly came down that the President had decided there should be no move by the United States to further the sales; the next step was up to Iran.

An intelligence officer on the trip to Tehran with McFarlane, while similarly discouraged by Iran's unwillingness or inability to hold high-level meetings with McFarlane and to secure the release of more hostages, felt that the United States had made its point to Iranian officials regarding its seriousness and that, by the time the trip ended, the Iranians truly wanted further talks. While not quarreling with the idea that Iran would have to move first, an intelligence officer on the trip to Tehran with McFarlane recommended that if they continued talks with Iran LTC North and he should meet them in Europe to continue the negotiations.

Iranian officials soon heard of the American reaction to the Tehran talks. A November 1986 chronology of the program prepared by the NSC staff indicates that on June 10,1986 Majlis speaker Rafsanjani made a speech that guardedly mentioned Iranian interest in improved relations with the United States. The Committee does not know whether that speech was seen as a signal at the time, but CIA personnel were soon told that there might be another meeting, and Iranian officials were made aware that a meeting in Europe was possible.

In late June, all the parties were apparently trying to patch together a new schedule of arms deliveries and hostage releases. According to one report, Iran was considering whether to release a hostage before any further deliveries of arms. Another report suggests that Israel offered to "sweeten the pot" by adding some free equipment to the proposed arms sale package.

According to testimony received by the Committee, the Iranians were upset by the high prices being charged, especially for spare parts for HAWK missile systems and by the fact that the U.S. had not upheld its part of the deal in shipping one half of the HAWK missile spare parts to Tehran with the U.S. delegation in May of 1986. A CIA official who participated on the trip contends that no such promise had been made. At the same time, according to the testimony of a CIA official it became clear that Iran was unable to control the captors of U.S. hostages. By early July, two CIA officers were comparing notes on whether the program was in danger; one has testified that he also made LTC North aware of Iranian anger over the high prices. Through early July, various schedules were floated without success. Iran had a price list for HAWK parts, and the gross discrepancies between

that list and the prices being charged to Iran were too large to explain away or to ignore.

During this same period, Iranian officials privately told officials of two other countries that they desired better relations with the United States; in one case they noted the possibility of hostage releases. LTC North noticed both these approaches and by July 17 had secured approval for positive responses to Iran through those countries.

In mid-July, there was some progress. It was made clear to Iran through multiple channels that there would be no further movement by the United States unless a hostage was released. According to documents received by the Committee, the Iranians accepted this and took steps to arrange for the release of a hostage. Iran also agreed to pay $4 million for the HAWK parts that had been delivered on McFarlane's plane.

A Casey memo to Poindexter indicates that in late July, when no hostage had yet been released, the United States told Ghorbanifar that the deal was off. A day later, however, it was learned that a hostage would indeed be released, and Father Jenco was released on July 29.

In this memorandum,to Poindexter, dated July 29, Director Casey detailed the role of participants in the arms sales program and made the case for meeting Iranian expectations about what would happen next. Casey argued that Ghorbanifar, while uncontrollable, "appears to respond generally to Nir's direction." Nir and Israeli officials would continue to work for the release of American hostages, Casey said, because their reputations were on the line and because the program was consonant with Israeli interests. Were the United States not to respond to this Iranian move, on the other hand, "matters could turn ugly" and "it is entirely possible that Iran and/or Hizballah could resort to the murder of one or more of the remaining hostages." Casey admitted that piecemeal releases were unpleasant, but he saw this as perhaps "the only way to proceed." He also felt that resolution of this issue could lead to longer term" contacts with moderate factions in Iran".

LTC North sent a memorandum to Admiral Poindexter, also dated July 29, proposing that Poindexter get the President's approval to ship the remaining HAWK parts to Iran. North also sent an electronic message to McFarlane emphasizing that Father Jenco's release had been an outgrowth of McFarlane's mission to Iran, rather than the result of any Syrian role. The document includes a notation by Admiral Poindexter, dated July 30, that the President had approved the shipment of the remaining HAWK parts to Iran. On the same day, Vice President Bush was given a briefing in Jerusalem by Mr. Nir. The Vice President attended the meeting at the suggestion of LTC North. According to a memorandum dated a week later by an official who was present at the briefing, Nir indicated he was briefing the Vice President at

the request of Prime Minister Peres. He conceded the problems encountered in the program, but argued that the Iranians with whom they were dealing were ones who could "deliver." He also discussed the problem of the sequence of release of additional hostages. According to the memo, the Vice President made no commitments and gave no direction to Nir.

Apparently in response to the approval of President Reagan, the HAWK parts reached Iran on August 3.

During the same period, according to documents received by the Committee, the United States was developing an alternative channel of communications with Iranian officials. In mid-July, Albert Hakim and a U.S. Government employee met with an acquaintance of Hakim's who was interested in putting together arms deals. The acquaintance knew of an Iranian official who wanted to contact the U.S. Government and talk about arms sales. Hakim had things arranged so that the Iranian would be steered toward him, rather than toward participants in the existing channel. By late July, LTC North reported to Admiral Poindexter that there had been meetings with some people to see whether they could become intermediaries; it is not clear whether he was referring to the mid-July meeting or to a later one. Hakim was pleased because his acquaintance was willing also to consider deals for non-lethal items; Hakim reportedly stated that he wanted to pursue that avenue irrespective of whether the U.S. Government used the channel. One proposal that later bore fruit was for some medical supplies to be sold at cost.

According to testimony received by the Committee, in August, Secord and Hakim met with the Iranian official who had sought to contact the U.S. Government to arrange arms sales. Secord reported to North that he was impressed with the Iranian, who knew about the existing channel but reportedly viewed Ghorbanifar and other intermediaries as untrustworthy. The Iranian promised not to disrupt the existing channel, but said that he would consult with his government about opening a second channel to the U.S. Government.

For the first channel, August 1986 was a time of continuing efforts and growing concern. Two CIA officials testified that they became more upset over Ghorbanifar's situation as they tried to understand the financing of this program and could not make sense of it. Ghorbanifar admitted to trying for a profit of 60 percent on top of the base price, but it would have taken a margin at least five times that to explain the figures that the CIA officials now understood to be involved. At some point during the summer of 1986, CIA's Near East Division asked another office to help it prepare a fake price list to justify the inflated HAWK part prices. The latter office later recalled that it had recommended that the division go to the Defense Department for help instead, and the Committee does not know whether a fake price list was ever actually prepared.

According to documents and testimony received by the Committee, in early August, efforts were resumed in the old channel to arrange for possible shipment of the two HAWK radars that Iran wanted. In mid-August, Amiram Nir told CIA personnel that he had authorized most of what Ghorbanifar had offered in the way of price cuts and alternative schedules, although Ghorbanifar had offered at least one item that was not authorized. Nir also conceded that Ghorbanifar was probably no longer trusted by the Iranians. The latest proposal involved the HAWK radars, some electron tubes for the HAWK systems, 1,000 TOWs, another trip to Tehran, and an Israeli sale, along with the staggered release of the three remaining hostages.

Later in August, at a meeting of Ghorbanifar, Nir and North, a new schedule was proposed that added still another 1,000 TOWs, instead of the Israeli sale, and added the requirement that William Buckley's body be returned for proper burial. By late August, preparations for a shipment of 500 TOWs had begun.

According to documents received by the Committee, on September 2, North sent Admiral Poindexter a memorandum on "Next Steps with Iran." Among other things, he recounted the messages being sent through two friendly countries, the latest Ghorbanifar proposal, and the emergence of a possible new channel. His proposal, reached in conjunction with the CIA, was that the Ghorbanifar channel be pursued as the primary effort.

North's proposal appears to have been rejected by either Poindexter or the President, for a September 8 memorandum from North to Poindexter mentions "guidance" to seek the simultaneous release of all three hostages, rather than sequential releases. This memorandum was a supplement to the September 2 memo, and again states that it was prepared in conjunction with CIA. The memo noted that it had proved impossible to convince the first channel to consider simultaneous release of all the hostages; that DOD had located enough material to make a sequential release approach attractive to the Iranians; that the first channel may now have been acting pursuant to direction by the new channel; and that Director Casey, having conducted a review of the Iranian project that day, considered Ghorbanifar's channel "the only proven means" to get hostage releases, and so supported expeditious efforts to meet the plan proposed by Ghorbanifar, while holding out hopes that the new channel might make modifications later in September. The memo argued that "our window of opportunity may be better than it will ever be again".

After meeting with Poindexter, LTC North told a CIA official that the old channel was to be shut down and put on hold, and the new channel was to be developed instead. According to a memorandum received by the Committee, LTC North had been warned that the Ghorbanifar channel would have to be closed in a secure manner, which meant finding enough money to get Ghorbanifar out of trouble. The memo noted a figure of $4 million. Further, according to testimony received by the Committee, others were

warned of the risks associated with closing down the Ghorbanifar channel at that time.

A CIA official testified that he began at this time to consider the possibility that one reason for Ghorbanifar's problems was a diversion of funds, in light of Secord and Hakim's roles in providing aid to anti-Sandinista forces. These concerns, especially the concern that Ghorbanifar's problems could lead somebody to go public, led the CIA official to raise the issue with Director Casey and Deputy Director Gates in early October, just as another source began to warn of a possible lawsuit. These events are discussed later in this report.

In mid-September, the visit of Israeli Prime Minister Peres and other officials to Washington prompted lower-level meetings with Nir, followed by briefings of the President and Poindexter for their meetings with Peres and Nir respectively. North's paper for Poindexter's use in briefing the President noted that the Israelis were nervous about U.S. intentions regarding the Iran program. The memorandum recommended that the President note his appreciation of the Israeli role and indicate our intentions to continue to coordinate closely with Israel vis-a-vis Iran. Ledeen attempted to see Secretary Shultz around this time to discuss the program, as he would again in October, but Shultz testified that he declined to meet with Ledeen.

According to testimony and documents received by the Committee, during September there was a shift to the new channel. In early September, the shipment of medical supplies that Hakim had proposed in July began to move forward as the CIA took steps to purchase and pack the materials.

In the early fall, there was a meeting between the new channel and U.S. officials, arranged by Secord. According to documents and testimony received by the Committee, the Iranian official said that he was meeting the U.S. team in order to upgrade the channel between the United States and Iran. The Iranian said that Iran would handle the old channel, and that he should be considered the new one.

According to documents received by the Committee, the hostage issue was treated at the meeting "as an obstacle, not a key issue in arriving at a strategic relationship". The Iranian said that Iran opposed hostage taking and terrorism, and the Ayatollah Khomeini had prepared a "fatwa" condemning the taking of hostages (which had been promised by Ghorbanifar in April). Another Iranian told a U.S. participant that the hostage matter "would soon be settled." Iran's intelligence needs were also presented in detail, and there was a discussion of a joint U.S.-Iranian committee that could handle the improving relations -- first in secret, then in the open.

According to documents and testimony received by the Committee, the U.S. team told the Iranian official that to show

U.S. seriousness, the Voice of America would mention Iran as one of the countries the United States wished to thank for refusing to grant landing rights to the hijackers of a TWA aircraft in Karachi. A few days later, NSC and CIA officials met to discuss a draft of the editorial. Working through State Department officials, the NSC staff convinced USIA that this unusual request came from "the highest levels" of the government, and the editorial was broadcast over a three-day period.

By the end of September, the stage was set for a complete switch to the new channel, and, in effect, the first channel was left to fend for itself.

Compromise of the Program

According to Roy Furmark, at the end of September 1986, Khashoggi asked Furmark to visit Casey and ask for his assistance. Khashoggi was deeply involved in financing arms deals between the U.S. and Iran, and he was owed $10 million. The funds belonged to some investors and had been deposited in an account belonging to Lake Resources, a firm connected to North, Secord, & Hakim. According to Furmark, Khashoggi assumed that Lake was a U.S. Government account. The solution, he said, was for the U.S. Government either to refund the $10 million or to complete the weapons shipment.

According to the testimony of Gates and a CIA officer, in early October 1986 a CIA officer expressed concern to DDCI Gates that abandoning the old channel altogether for the new channel might be a risk to operational security because the old channel had not been taken care of financially.

At the same time, Gates was reportedly informed of speculation by this CIA officer that there was the possibility of funds from Iranian arms sales having been diverted to other U.S. projects, including the Contras". Gates directed that Casey be briefed and the CIA officer testified that he met with Casey on October 7 and repeated what he had told Gates. At this meeting, Casey told the CIA officer that he had received a call that day from Roy Furmark, a former legal client and long-time acquaintance. Casey said that Furmark had told him that Khashoggi had put up the money to finance the purchase of arms by Iran, but that the money was not actually Khashoggi's; that Khashoggi had borrowed the money from two Canadians for a 20 percent return on investment after 30 days;and that the Canadians had not been repaid and were threatening to go public with the details of the operation. According to the CIA officer, Casey called Poindexter that same day and told him of Furmark's call. (It should be noted that Furmark testified that he had met with, not called, Casey that day.)

According to documents received by the Committee, during this same time frame a meeting was scheduled in Europe with the new Iranian channel. In preparation for this meeting, North drafted

a memorandum for Poindexter to send to Casey, stating that the President had authorized the delivery of intelligence information to the Iranians. The January 6, 1986, Presidential Finding was cited as the authority.

The CIA assembled an intelligence package in preparation for a meeting in Europe with the new Iranian channel. The CIA author of the memorandum transmitting the package cautioned, however, that "such information, if it were to come into Iranian possession, would likely help Iran plan and execute military operations against Iraq".

According to testimony received by the Committee, the European meeting took place between the U.S. team, which consisted of North, Secord, and a CIA officer, and the new Iranian channel, and, subsequently, on October 9, North visited CIA headquarters and briefed Casey and Gates on the meeting. According to testimony by Gates, during the course of this briefing, he asked North if there was any CIA involvement in North's efforts on behalf of private funding for the Contras. Gates testified that North responded that there was no CIA involvement. Gates further testified that at this same meeting, he urged Casey to insist on getting a copy of the Iran Finding, a document which the CIA did not have. North said that he would assist in this effort, and a few days later the CIA received the Finding.

According to documents received by the Committee, shortly thereafter, a CIA officer drafted a memorandum analyzing the NSC arms to Iran initiative which, in part, proposed certain damage control procedures in the event the initiative became public and speculated that creditors might assert that money from the arms sales was being "distributed to other projects of the U.S. and Israel". Upon seeing the memo, Casey called Poindexter and set up an appointment for the next day.

Casey and Gates saw Poindexter on October 15 and gave him a copy of the memorandum. Gates testified that he and Casey recommended to Poindexter that the President ought to reveal the initiative to the public, to avoid having it "leak out in dribs and drabs." Meanwhile, according to Gates, he directed the CIA's General Counsel to review all aspects of the Iran project to insure that the CIA was not doing anything illegal. The General Counsel subsequently reported to Gates that he had looked into the situation and that there was "nothing amiss from the CIA standpoint".

On October 16, at Casey's direction, a CIA officer met with Furmark to discuss the Iran initiative and Khashoggi's involvement in financing the arms sales. Subsequent to the meeting, a memo to Casey was drafted recounting the conversation with Furmark, which provided in part that Furmark had recommended an Iranian arms shipment "to maintain some credibility with the Iranians ... and to provide Ghorbanifar with some capital so that

the investors can be repaid partially and so that Ghorbanifar can borrow money to finance additional shipments." This, according to Furmark, would keep the process rolling and could result in release of additional hostages.

A follow-up meeting with Furmark in New York with two CIA officers occurred on October 22. According to documents and testimony received by the Committee, in addition to discussing the sources of financing for the various shipments of arms to Iran, Furmark said that Ghorbanifar firmly believed" that "the bulk of the $15 million [for the HAWK spare parts] had been diverted to the Contras." The CIA officer testified that it was his impression that Furmark shared Ghorbanifar's belief. Upon their return, the two CIA officers briefed Casey upon their return, included the subject of possible diversion of funds to the Contras. A summary memorandum was drafted for Casey to send to Poindexter, but it was never signed by the DCI and was apparently never sent to Poindexter.

The next arms shipments to Iran continued during this period. At a meeting in late October, the Iranians produced a check for $4 million to pay for 500 TOWs. Of this amount, the CIA received $2.037 million on October 28, and on October 29 500 TOW missiles were shipped from Israel to Iran. On that same day, North sent a message to Poindexter providing a status report on the meeting with the Iranians. According to that document, the United States was assured of getting two hostages back "in the next few days". On November 2, hostage Peter Jacobsen was released.

According to testimony received by the Committee, the October 29 shipment of arms from Israel to Iran -- for which the Israelis received 500 TOWs in reimbursement on November 6 -- marked the end of U.S.-Iranian arms deals. On November 3, the Lebanese newspaper Al Shiraa reported that the United States had been supplying arms to Iran and stated that McFarlane had visited Tehran earlier in the year to meet with Iranian officials.

According to documents and testimony received by the Committee, Secretary of State Shultz, upon learning of the revelations, sent a cable to Poindexter in which he expressed his concern over possible press attempts to portray the arms deal as a violation of U.S. counterterrorism policy. Shultz suggested that the best course of action would be to go public on the NSC initiative in an attempt to make it "clear that this was a special one time operation based on humanitarian grounds and decided by the President within his Constitutional responsibility to act in the service of the national interest." Shultz testified that he did not know at this time about the January 17 Presidential Finding authorizing the arms transfers to Iran and that neither he nor Secretary Weinberger learned of the Finding until it was revealed at a White House meeting on November 10.

According to documents received by the Committee, Poindexter, by cable, rejected the Secretary's advice, citing a need to get

the hostages out and a desire to brief the Congressional Intelligence Committees. According to the cable, Poindexter had spoken with Vice President Bush, Weinberger, and Casey and they had all agreed with the necessity for remaining "absolutely close-mouthed while stressing that basic policy toward Iran, the Gulf War and dealing with terrorists had not changed".

On November 7, Furmark told the CIA officer with whom he had been meeting that the Canadian investors who had not received their funds from Khashoggi were planning to sue the Saudi arms dealer and a private firm into which they paid the $11 million to cover the cost of the HAWK missile parts". According to documents received by the Committee, Furmark said that he had persuaded the Canadians to delay their lawsuit. Furmark indicated he was unimpressed with the new Iranian channel and expressed support for the ability of Ghorbanifar, who "coordinated his initiatives...with all significant factions in Iran".

In November, the U.S. team, including North, met again with the new Iranian channel. During three days of meetings with the Iranian, the topics included hostage release, Dawa prisoners being held by Kuwait, the Israeli role in the arms transfers, and Iranian intelligence requirements. The new channel admitted that Iran owed Ghorbanifar $10 million, but stated that Ghorbanifar owed Iran 1,000 TOW missiles.

According to testimony received by the Committee, by this point the Executive branch had come to believe that the Senate and House Intelligence Committees would have to be briefed on the Iranian initiative. The CIA thereupon began to prepare the materials needed for Casey's presentation. The CIA officer who had dealt directly with the Iranians was asked to prepare an outline of the meetings he had attended, and the CIA Comptroller attempted to reconstruct the financial aspects of the Iran program.

Casey testified before the Senate Intelligence Committee on November 21, 1986. He did not mention any possibility that there had been a diversion of funds from the arms sales to Iran. When asked about this omission, Gates later testified that the reason for the omission was that "the information was based on analytical judgments of bits and pieces of information by one intelligence officer, and that they [Casey and Gates] didn't consider that very much to go on, although it was enough to raise our concerns to the point where we expressed them to the White House."

According to the Attorney General's inquiry, prior to appearing before the Senate Intelligence Committee, Shultz went to the White House and informed the President that some of the statements being made about the Iran arms affair would not stand up to scrutiny. Shultz also informed Meese of his feelings on this matter. A Justice Department staff member then obtained

information from the State Department about the November 1985 HAWK missile shipments that did not fit with other information gathered by the Attorney General. At that point, Meese decided to go see the President.

The same day that Casey testified before the Senate Intelligence Committee, the Attorney General met with the President and Chief of Staff Regan to discuss the need for an accurate account of the arms deals, particularly in light of the upcoming testimony before Congressional Committees. According to Meese, the President asked him to "review the facts" to get an accurate portrayal of the various agencies and their involvement. Meese later testified that he "didn't smell something was wrong," but was bothered by "things we didn't know." This was not an investigation, said Meese, but simply an attempt "to pull the facts together so that we would have a coherent account." Regan suggested that the review be completed prior to the 2 p.m. NSC meeting on Monday. According to testimony by Meese, he then discussed his mission with FBI Director Webster, and the two of them agreed that it was not a criminal matter and it would not be appropriate to involve the FBI.

Meese testified that on the afternoon of November 21, he assembled a team of three lawyers "who had experience with this type of matter." Meese then made a list of people to talk with, including North, Shultz, Weinberger, Poindexter, McFarlane, and the CIA's General Counsel.

According to the Attorney General's inquiry, one of the first persons interviewed by Meese was McFarlane, who said he had told Kimche at a December meeting in London that the United States was "disturbed about TOWs -- can't approve it." By contrast, McFarlane testified that he had told Meese during this interview that the President had favored the Iran initiative from the beginning. McFarlane stated that Meese seemed glad to hear this, as an early Presidential approval would legitimize subsequent acts. According to McFarlane, Meese then opined that an oral, informal Presidential decision or determination was no less valid than a written Finding.

At 8:00 a.m. Saturday, Meese spoke with Shultz to discuss the Secretary of State's recollection of certain events. Meese testified that he was not shocked to learn that Shultz had not known of the January 17 Presidential Finding and stated that he himself had heard nothing of it after it had been signed.

According to testimony by Meese, on the morning of November 22, the Meese team discovered the early April NSC memo which referred explicitly to the diversion of arms profits to the Contras. Assistant Attorney General William Bradford Reynolds told Meese about the document at lunch on Saturday. Meese testified that this was the first time that he felt as if something was "not in accord with the President's plan."

According to the Attorney General's inquiry, the next day, the Meese team -- including the Attorney General -- met with North. Meese reportedly told North that there would be some people who were concerned with protecting the President, but that facts were what was needed. In response to Meese's question about whether McFarlane's problem was the perception or the fact of arms to Iran for hostages, North stated that he believed the President himself authorized the deal. North said that when he spoke with the President it was in terms of a strategic linkage. With the President, said North, it always came back to hostages. According to Meese, North said it was a terrible mistake to say that the President wanted a strategic relationship, because the President wanted the hostages.

According to testimony by Meese, on November 24, 1986, at 11 a.m. he met with the President and the Chief of Staff and told them of indications that money from the Iran arms sales might have gone to the Contras. The Attorney General's announcement of this on November 25, led the Committee to begin the inquiry herewith reported.

As recently as mid-December, State Department and CIA officials met with an Iranian representative to discuss U.S. policy toward Iran. The State Department official relayed the message that there would be no more arms to Iran unless Iran stopped supporting terrorism and agreed to negotiate an end to the war with Iraq. U.S. hostages, said the official, must be released unconditionally. The Iranians, in turn, cited a previously-agreed upon nine-point agenda which included the repair of PHOENIX missiles, an approach toward Kuwait about releasing Dawa prisoners, and shipment of 1,000 TOWs to Iran. Following this unsuccessful session, the CIA officer met privately with the Iranian, without the State Department's knowledge or approval.

According to testimony received by the Committee, on December 19 Senator Dave Durenberger, Chairman of the Intelligence Committee, and Bernard McMahon, the Committee's staff director, met with the President, Peter Wallison, Don Regan, and Alton Keel, at the request of the White House to discuss matters relating to the sale of arms to Iran and possible diversion of funds to the Contras. The Committee was not informed of this meeting until January 20, 1987.

According to testimony received by the Committee, on December 20 Senator Dave Durenberger and Bernard McMahon met with the Vice President, Craig Fuller and a second member of his staff to discuss matters relating to the sale of arms to Iran and possible diversion of funds to the Contras. The Committee was not informed of this meeting until January 20, 1987.

SUPPORT TO THE NICARAGUAN RESISTANCE

The Committee initiated its preliminary inquiry on December 1, 1986 after the Attorney General disclosed evidence of the possible diversion of funds from the Iran arms sales to the Nicaraguan resistance. According to documents and testimony received by the Committee, several individuals played key roles in both the arms sales to Iran and the possible diversion of funds to the Nicaraguan resistance, including Lt. Colonel North, Retired Major General Richard Secord, and Secord's business associate, Albert Hakim. North was assigned NSC responsibility for the Nicaragua-Central America account.

McFarlane testified that in preparing his response to press reports and Congressional inquiries in the summer of 1985, he went to considerable length in interviews with North and looking at files to determine the nature of North's activities in connection with the Nicaraguan resistance. He further testified that North assured him categorically at that time that his role was nothing more than encouraging the contras and advising people who volunteered support that they should contact the contras. McFarlane further testified that he had learned nothing since that time to contradict this view of North's activities.

The initial CIA action officer on the Iran project met with North on several occasions in 1986. The CIA officer described Secord and Hakim as "almost co-equal lieutenants" of North. The CIA action officer testified that on a trip in February he learned from North that Secord and Hakim were the principal aides to North in his contra activities. North did not describe those activities to the CIA officer other than saying that Hakim was responsible for the effort in Europe to help the contras. In March 1986, the CIA officer knew that North was very active in the contra program. It seemed to the CIA officer as if North was splitting his time between the contras and the Iran project and that he was having trouble keeping up with both. North was visiting Honduras and going to meetings and otherwise working hard on support for the fighters. The CIA officer testified, that North's activities were widely known in the CIA and the NSC.

A White House document indicates that Lt. Colonel North described Albert Hakim to Admiral Poindexter on February 18, 1986 as Vice President of one of the European companies set up to "handle aid to resistance movements."

Another White House document reflects that in a secure message from North to McFarlane on Feburary 27, 1986, summarizing a meeting in Europe, North described Hakim as an American citizen who "runs the European operation for our Nicaraguan resistance support activity."

According to documents reviewed by the Committee, in late November 1985, North received assistance from Secord in resolving problems with an arms transfer to Iran. A White House document

dated November 22, 1985, indicates that North and Secord were already involved in an enterprise North referred to as, "our Swiss Company," Lake Resources, and that an aircraft belonging to Lake Resources was in a European country in November to pick up arms for the Nicaraguan resistance. It was to be the first direct flight to the resistance field at Bocay and the arms packages had parachutes attached. This flight was to be delayed so that the plane could be used for the transfer to Iran (ultimately another plane was used for the arms transfer).

This document also reflects that North described these circumstances to Poindexter. The document also shows North saying that he (North) would meet with Adolfo Calero, a contra leader, to advise him of the delay in arrival of the arms.

A separate White House document reflects that North advised Poindexter on December 4, 1985 that North was using an operations code for Iranian matters similar to the one used to oversee deliveries to the Nicaraguan resistance. North reported that the latter code had never been compromised.

According to evidence received by the Committee, a direct connection between the arms sales to Iran and aid to the Nicaraguan resistance was made in January, 1986 in discussions between North and Amiram Nir, terrorism advisor to Israeli Prime Minister Peres. Notes taken at the interview of North by Meese on November 23, 1986 quote North as saying that he had discussed support for the Nicaraguan resistance with Nir in January, 1986 and that Nir proposed using funds from arms sales to Iran for that support. [According to some notes, North believed Nir made the suggestion on his own.] The Attorney General testified that he was uncertain as to whether North or Nir brought up the subject of Nicaraguan resistance. North also recalled turning down other Nir suggestions that U.S. funds to Israel or Israeli's own funds could be used to support the Nicaraguan resistance.

Other notes of that interview reflect only that Nir told North in January that the Israelis would take funds from a residual account and transfer them to a Nicaraguan account.

Notes of the Meese-North interview further reflect that North commented that he had discussed Israeli help in general with Defense Minister Rabin, but could not recall asking specifically for help from the Israelis.

According to documents received by the Committee, by the time of the North-Nir discussion in January, the Israelis may have been holding funds from the November 1985 HAWK transfer available to use for the Nicaraguan resistance. A CIA document reflects that during one of the breaks in a CIA polygraph examination of Ghorbanifar in January 1986, he commented that the Israelis received $24 million as soon as the HAWK shipment was delivered and that they were holding all of the funds. The Iranians were requesting the funds be returned. Ghorbanifar

reportedly stated that the Israelis told him they had "doubled" the cost of the shipment apparently because the Americans were involved. Ghorbanifar reportedly stressed how upset the Iranians were at not getting the $24 million back.

On November 24, 1986, the day after Meese met with North, an attorney, Tom Green, met with Assistant Attorney General Charles Cooper. According to Cooper's notes, Green said he represented North and Secord and described the role played by Secord and Hakim in the Iran project. Green reportedly said that at a meeting on the arms sales in Europe in early 1986, where Hakim served as interpreter for the Americans, Hakim told the Iranians that in order to foster the relationship and show their bona fides, the Iranians should make a contribution over the purchase price for use of the contras or "of us." Green added that Hakim probably said the U.S. government was desirous of this. Green said that was the basis upon which the February shipment of TOWs was priced.

According to Cooper's notes, Green said the money from that sale was routed through Israelis into Hakim's financial network. Hakim, in his private capacity, routed money into other accounts belonging to foreigners. The same thing happened again in May. Green reportedly said none of this violated the law because no U.S. money was involved -- only Iranians making a contribution.

On or after April 4, 1986, an undated White House document (the "Undated Memorandum") was prepared that outlines past developments and future plans for the Iran program. Evidence received by the Committee, including the text of the Undated Memorandum and an attachment styled "Terms of Reference" and dated April 4, suggests the Undated Memorandum was written in this time period. The Undated Memorandum provided that $12 million of the residual funds from an arms transaction the transaction would be used to purchase critically needed supplies for the Nicaraguan Democratic Resistance Forces. The Undated Memorandum described this material as essential to cover shortages in resistance inventories resulting from their current offensives and Sandinista counter-attacks and to "bridge" the period until Congressionally-approved lethal assistance beyond "defensive" arms could be delivered. At the bottom of the page on which this discussion appears was a recommendation that Presidential approval be obtained for certain parts of the plan for the Iran program that did not include the diversion of funds to the Nicaraguan resistance. The Undated Memorandum was unsigned and specified no addressee, and it is not clear to the Committee who, if anyone, saw it.

The Undated Memorandum was discovered in the files of the NSC on November 22, 1986 by members of the Attorney General's staff. Meese made an appointment to meet with North the next day, at which time North was questioned at some length about the Iran program and then confronted with the Undated Memorandum.

Notes taken at the November 23 meeting indicate that North confirmed the accuracy of the Undated Memorandum as reflecting the plan for use of residual funds from the Iran arms sale for the Nicaraguan resistance. Notes of the meeting recount North saying the $12 million figure in the memo was based on what he was told by the Israelis and that he did not know how much was moved to the Nicaraguans -- the Israeli (Nir) decided the amount given to the resistance, with no involvement by the CIA or NSC.

According to the notes of the Attorney General inquiry, North stated that he had not discussed the matter with the President. According to documents received by the Committee, North was in 17 meetings with the President over the two year period, 1985-1986, and none alone, and had one phone conversation with the President on December 4, 1986.

According to testimony by Meese, North said that he did not know the amount of money involved. North said the CIA did not know about the handling of the money, although some might suspect.

Notes taken at the meeting further reflect that North said Presidential approval of something would be reflected in the working files. Asked whether he would have a record if the President approved in this case, the notes reflect that North replied affirmatively, and said he didn't think it was approved.

Notes taken at the meeting further reflect that North described the money that the Israelis were to get to the Nicaraguans as Iranian money from profits of the arms deals and saying he understood this part of the deal. The notes further reflect that North said he had told McFarlane in April or May 1986 about the deals and that the only three people who could know in the U.S. were McFarlane, Poindexter and North.

According to testimony by McFarlane, during their return trip from Tehran, North told McFarlane that part of the profit from the arms transcation was going to the Nicaraguan resistance. McFarlane testified that he took it from the summary reference that this was a matter of policy sanctioned by higher authority.

McFarlane testified that he did not ask North whether there was a Finding specifically sanctioning the transfer of funds to the contras. He testified that North's portrayal of the contra connection was "part and parcel of a series of activities that had been going on." McFarlane testified that he did not report what he had been told by North about the use of Iran arms profits for the Nicaraguan resistance.

Moreover, McFarlane testified that when he asked North on November 23, 1986 who had approved such action, North responded that he would never do anything without it being approved by higher authority and that he could not account for who was involved beyond Poindexter.

The notes of the Attorney General's inquiry further reflect that North said after the meeting with Nir in January 1986, he had contacted Adolfo Calero and as a result of that contact three accounts were opened in Switzerland. The notes quote North as saying he gave the account numbers to the Israelis, and money was deposited in those accounts. North guessed the money got to the contras; they knew money came and were appreciative.

Notes taken at the meeting further reflect that North identified two transactions from which money may have been diverted went to the contras: 1) the transfer of 1000 TOWs in February [1986], from which $3-4 million may have gone to the contras; and 2) the transaction [in May 1986] involving payment for HAWK parts and payment for replenishment of the 508 TOWs.

Notes taken at the meeting indicated North said there was no money for the contras in the October shipment of 500 TOWs to avoid a perception of private profit and because the resumption of U.S. funding made it unnecessary. According to North, Nir was upset because the October price was not the same as charged earlier.

When Attorney General Meese testified before the Committee, he said that North was surprised and visibly shaken when shown the Undated Memorandum. According to testimony by Meese, North said that he did not recall the account numbers which were given to the Israelis and that the Israelis arranged for the money to be deposited. Meese testified that North was very definite that the money got to the Nicaraguan resistance forces, but could not remember or did not know the amount apart from an estimate of $3-4 million on one occasion.

Meese testified that he got the impression that the three bank accounts were set up by somebody representing the Nicaraguan resistance forces, that the numbers were given to North, and that North gave them to the Israelis.

Meese further testified that he was not positive that North told him the Undated Memorandum was not used or sent for approval. Meese testified that North did not mention any problem in his mind that, by some interpretations, U.S. money was being used for the Nicaraguan resistance. Meese testified that he did not go into that with North and that there was no discussion of the Congressional restrictions on soliciting funds.

Meese testified that he did not advise North of his right to counsel because he did not consider his inquiry to be a criminal investigation.

Meese testified that North did not explain how he reported the arms sale matter to Poindexter. Meese testified that he got the impression that there was very little real communication about it between North and Poindexter and that North was not

acting on orders from anyone.

Regan testified that he never saw the Undated Memorandum until shown it by White House counsel several days before his testimony and that his reaction on seeing it was he could not believe it. Mr. Regan further testified that the President was never in his presence briefed on anything of that nature and that he is confident the President would not have approved it if he had been told by Poindexter or North. Regan testified that he had not shown the document to the President.

During the same general time period, the President had two meetings which appeared to relate to Central American policy at which North was present. The exact topic of discussion cannot be determined from records available to the Committee. Both meetings occurred on April 23. White House documents list as the general topic of one meeting a discussion of a recent trip by Elliott Abrams to El Salvador, Honduras, and Costa Rica. The meeting was attended by the President, the Vice-President, Deputy Secretary of State John Whitehead, Abrams, Regan, Poindexter, and Fortier in addition to North. The other meeting for which no topic is listed was attended by the President, North, Regan, Poindexter, a Central American security official and his wife, and the senior CIA officer in that country. The CIA officer was later the subject of an internal CIA investigation initiated in the Fall of 1986 concerning unauthorized contacts with private supporters of the Nicaraguan resistance.

According to documents and testimony received by the Committee, it is possible that the following two events occurred on the same day, May 15, 1986. First, according to a chronology of the Iran program prepared at the White House in November 1986, the Terms of Reference for Mr. McFarlane's trip to Tehran were approved on May 15, 1986. These Terms of Reference appear to be identical to the Terms of Reference dated April 4 which were found in NSC files attached to the Undated Memorandum discussing diversion of funds to the contras. Second, Poindexter gave the President a status report on the Nicaraguan resistance in preparation for an NSPG meeting on Central America scheduled for the next day. According to Poindexter's memorandum, Poindexter included in his status report a note that outside support for the Nicaraguan resistance would be consumed by mid-June and no further significant support appeared readily available. The memorandum stated that the $100 million aid request was stalled in Congress. Poindexter identified as options: reprogramming; Presidential appeal for private donations; and direct and very private Presidential overture to certain heads of state.

Regan testified that the President met with McFarlane prior to his trip to Tehran and discussed the objectives for McFarlane's talks with the Iranians. Regan testified that he did not recall seeing a document entitled "Terms of Reference" similar to the Undated Memorandum, nor did he recall approval ever being given for such a document. Regan testified, however,

that the President's approval should have been required if those instructions were given to McFarlane for his visit to Tehran. A copy of Terms of Reference identical to those attached to the Undated Memorandum and bearing the date May 21, 1986 has been located in White House files.

According to documents received by the Committee, on May 16, 1986, the President held an NSPG meeting where solicitation of third-country humanitarian support for the Nicaraguan resistance was discussed. Those present included the President, Vice President, Craig Fuller, Secretary Shultz, Ambassador Habib, Assistant Secretary Abrams, Secretary Baker, Secretary Weinberger, Under Secretary Ikle, Director Casey, the CIA task force chief, General Wickham, Lt. Gen. Moellering, Don Regan, Admiral Poindexter, William Ball, Djerejian, McDaniel, Burghart, and North.

White House documents reflect that the issues discussed at this meeting included the negotiation process and the status of Contadora, and the $100 million aid package before Congress for the Nicaraguan resistance. The document states that the situation with the resistance was good but could reverse abruptly as they were running out of money. Two options to get the money were considered -- seek to get reprogramming through Congress or go to other countries. The final decision was to look at both approaches. According to the documents, Secretary Shultz was to provide a list of countries which could be approached.

Abrams testified that the State Department had legal authority from Congress to solicit humanitarian assistance from third countries. According to Abrams, Secretary Shultz agreed it was a good idea to do so.

According to testimony by Shultz, in June 1986 Abrams came to Shultz with a proposal to seek such aid and said there was a Swiss account that could receive the money and Shultz approved. Shultz testified that apart from a request for communications equipment, which was not honored, only one country was asked for a contribution pursuant to this policy.

Regan recalled such an NSPG discussion, although not the precise date of May 16, and testified that there was absolutely no mention of the possible use of funds from the Iran arms sale, including sales by third parties or countries, to provide humanitarian or military assistance to the Nicaraguan resistance.

Shultz testified that in June, McFarlane telephoned him to report that a third country had previously contributed $31 million to the Nicaraguan resistance. McFarlane, in his testimony, recalled a similar phone call to Shultz informing him of a $30 million third country contribution to the FDN.

<u>August - September, 1986</u>

According to testimony received by the Committee, in August, pursuant to the policy approved by the President in May, Abrams approached a third country and asked it to contribute $10 million for humanitarian assistance to UNO. Abrams reportedly met with a representative of that country on August 8; he pointed out that Congress had approved $100 million but it had not been appropriated yet and money was needed to bridge this gap between the previous $27 million [in humanitarian aid] and passage of the appropriation by Congress, which the contras had not yet received. When the third country agreed, Abrams asked the CIA task force chief and North for advice on handling the contribution.

According to testimony received by the Committee, the task force chief recommended having UNO open a bank account in its name and then having NHAO or the State Department monitor the expenses and authorize them from that account. Abrams agreed, and the task force contacted UNO Secretary General Naio Sommariba and asked him to open an offshore bank account for use to deposit the funds. According to testimony received by the Committee, this was done at a bank in the Bahamas, with signatures of Sommariba and his accountant on the bank account. According to testimony received by the Committee, Abrams needed the account number urgently and the number was obtained and passed on to Abrams at a meeting in the NSC situation room. The task force chief said he provided this assistance on his own authority after consulting with the task force lawyer to make sure it was legal. He testified that he informed CIA Deputy Director for Operations and the Latin America Division Chief after the fact, and they raised no questions as to legality. The task force chief went on to testify that this was the way he handled 95 percent of his activities. CIA officials considered that the State Department was legally within its bounds to solicit the money and did not consider CIA's assistance to be in any way circumventing the law.

Abrams testified that he asked both the CIA task force chief and North to provide accounts for the donation from the third country. He testified that the account opened by North was with Credit Suisse. Abrams testified that he discussed the situation with Charles Hill, Executive Assistant to Secretary Shultz, and they decided to use the account opened by North without procedures for monitoring expenditures from the account.

Abrams testified that in September and October the State Department sought assurances from the donating country that they were going to give the $10 million and would deposit it in the account provided by North. Documents received by the Committee confirm this statement.

Abrams testified that on several occasions after that he checked with North to see if the money had been deposited. According to Abrams, North reported to him on several occasions that the money had not reached the account. According to documents and testimony received by the Committee, in late

November, Abrams turned over the information on the account to the State Department legal advisor, and the FBI began looking into the matter.

According to a document submitted by the Justice Department to the Swiss government in December 1986, the Credit Suisse account number that North gave Abrams is the same as the number of the account suspected of being used by North, Hakim, and Secord for proceeds from Iran arms sales.

In preparation for a meeting on September 15, 1986 between the President and Israeli Prime Minister Peres, North prepared a memorandum for National Security Advisor Poindexter on matters the Prime Minister might raise with the President. The memorandum reported that on the previous Friday, September 12, Israeli Defense Minister Rabin had offered a significant quantity of captured Soviet bloc arms for use by the Nicaraguan resistance. These arms were to be picked up by a foreign flag vessel the week of September 15 and delivered to the resistance. The memorandum advised that if Peres raised this issue, the President should thank him because the Israelis held considerable stores of bloc ordnance compatible with arms used by the Nicaraguan resistance. Poindexter noted on the memorandum received by the Committee, that he discussed it with the President.

Regan testified that he attended a briefing of the President one hour before the Peres meeting and that the Rabin offer was discussed. Regan testified that the subject was not expected to come up at the President's meeting, but that if Peres raised it, the President should "just say thanks." Regan recalled no discussion as to legality under American law.

Regan testified that the President never told him what came up in a 15 minute private meeting between the President and the Prime Minister, and the subject did not come up in the open meeting.

According to a document received by the Committee, two days before the President's meeting with Peres, Poindexter had replied by note to a message from North advising him to "go ahead and make it happen" as a "private deal between Dick and Rabin that we bless." Poindexter's note also referred to another note providing that Poindexter had talked to Casey that morning about Secord. Poindexter instructed North to keep the pressure on "Bill" to "make things right for Secord."

CIA

In testimony to the Committee, the senior CIA analyst on the Iran project stated that he began a thorough analysis of the intelligence on the program in mid-September 1986 and became concerned that Iran was being overcharged and that the funding might have been diverted for other projects including support for the Nicaraguan resistance.

He testified that he had conversations with Ghorbanifar and with Nir in August and September about funding problems with the Iran arms transfers. He knew, he said, that North was active in political support of the contras and that Hakim and Secord were involved in flights to supply the contras as well as the Iran program. Because the money issue was unresolved, he suspected money was already spent or allocated.

The CIA analyst testified that on October 1, 1986, he brought his concerns to the Deputy Director of Central Intelligence, Robert Gates. He explained that given the individuals involved, he was concerned that funds were being diverted to Central America.

According to testimony, Gates was surprised and disturbed and told the analyst to see Director Casey. The analyst testified that he and Gates did not discuss the legality or illegality of diversion. They talked about it being an inappropriate commingling of separate activities and the risk to operational security.

Gates testified to the Committee that the analyst viewed the problems as a serious threat to the operational security of the Iran project. Gates recalled that the analyst's conclusion that some of the money involved was being diverted to other U.S. projects, including the contras.

FURMARK

According to testimony by Roy Furmark, a New York businessman and a lawyer for Adnan Khashoggi, Ghorbanifar told him in a meeting in August in Paris, that proceeds from the inflated Iran arms sale prices may have gone to Afghanistan or Nicaragua. Furmark testified that at the end of September, Khashoggi asked him to visit Casey to get the U.S. to resolve the financial problems. Furmark testified that all those involved considered the Lake Resources account at Credit Suisse to be an American account. Furmark testified that he had known Casey for twenty years in business matters, OSS dinners, et cetera.

In a letter to Attorney General Edwin Meese dated late November 25, 1986, Casey described Furmark as a friend and former client -- someone he had not seen in six or seven years.

Furmark and Casey met on October 7, 1986 and, according to Furmark's testimony, he told Casey about the financial problems with the Iran project and that Casey seemed unaware of details. Furmark tetified that Casey tried to call Poindexter who was not in and that Casey said he would look into it.

In a letter to Attorney General Meese dated November 25, 1986, Casey said Furmark had provided him with more information than Casey had ever heard about the Ghorbanifar-Israeli channel to the Iranians. The letter quotes Furmark as saying that he had

been involved in a Ghorbanifar-Israeli channel to the Iranians from its inception. Casey advised the Attorney General that he and Gates had passed Furmark's information on to Poindexter a day or so after the October 7 meeting.

Also on October 7, a meeting was held between a senior CIA analyst, the Deputy Director of CIA, Bob Gates, and Casey. This senior CIA analyst testified he believed Furmark did not mention to Casey on October 7 the possibility that Iran arms proceeds had gone to the Nicaraguan resistance.

Casey later told the analyst that he, Casey, called Poindexter on October 7 and that Poindexter knew of the problem raised by Furmark.

Gates testified that it was possible that during the October 7 meeting Furmark may have raised with Casey the possible diversion of money to the contras.

At the meeting with Casey on October 7, Gates told Casey of the senior analyst's concerns about the possible diversion of funds to Central America. Casey directed the analyst to put all his concerns in writing. Gates testified that Casey was startled by the information.

Gates further testified that on October 9, 1986, Casey, Gates, and North met for lunch to give North an opportunity to debrief Casey and Gates on a meeting on the Iran project that had recently taken place in Europe. Gates testified that problems with the Iran program were discussed and that, during lunch North made a very cryptic reference to a Swiss account and money for the contras. Gates recalled that he and Casey did not pursue it but instead asked North whether there was any direct or indirect CIA involvement in any funding efforts for the contras. North's response reportedly was that CIA was "completely clean" and that he had worked to keep them separate. Gates testified that he and Casey discussed after lunch the fact that they did not understand North's comments. After the lunch, Gates noted for the record that North had "confirmed" that the CIA "is completely clean on the question of any contact with those organizing the funding and operation," and that a clear separation between all CIA assets and the private funding effort had been maintained. A senior CIA analyst testified that Gates later told him that there had been a discussion with North of integration of the private effort to support the contras and CIA activities, and that North had told Gates there was no commingling and CIA was clear.

On October 14, 1986, Gates and the senior CIA analyst met with Casey and gave him the memorandum prepared by the analyst pursuant to the October 7 meeting. A cover memorandum from the analyst to Casey and Gates said the analyst had not consulted with North or other individuals involved on the U.S. side in drafting the memorandum. The attached 7-page memorandum discussed the risk that Ghorbanifar might disclose to the press

an account, charging that the U.S. government had failed to keep several promises to him and that both the U.S. and Israeli governments had acquired substantial profit from the Iran arms transactions, some of which was redistributed to "other projects of the U.S. and Israel." The analyst testified that the reference in his memo to "other projects" related only to speculation about possible allegations of improper diversions of money to Central America, misappropriation of funds by arms dealers, and indications of funds needed for some unknown purpose by an Israeli official.

Casey advised the Attorney General in his November 25, 1986 letter that he had this memorandum prepared and believed it was delivered to the NSC to review the state of play on the channel to the Iranian government. Gates testified that the next day, October 15, 1986, he and Casey met with Poindexter and delivered a copy of the analyst's memorandum. Gates testified that they advised Poindexter, in view of the people who knew about it, to think seriously about having the President lay the project before the American public to avoid having it leak in dribs and drabs.

According to his November letter to Meese, Casey said that he and Gates urged Poindexter to get all the facts together and have a comprehensive statement prepared because it seemed likely that the litigation which Furmark said his clients were contemplating would require it.

In the same letter, Casey stated that Gates had said he would apprise the CIA General Counsel of the matter and get his advice. Gates testified that he did ask CIA General Counsel Dave Doherty to review all aspects of the project and to ensure that the Agency was not involved in any illegalities. According to Gates, Doherty later told him that he had looked into things and not found anything wrong. Doherty testified that Gates mentioned that Southern Air Transport was involved, linking the whole thing to Central America, because Southern Air transport was also shipping material to the Nicaraguan resistance. According to Doherty, the FBI was looking at the issue of humanitarian funds to see if any were being spent unlawfully.

According to testimony by Doherty, Gates also mentioned to the General Counsel speculation and rumors that Iran funds could have been sent to Central America as part of private funding efforts. Doherty testified that Gates told him he was concerned that CIA did not know how funding transfers were being handled by the NSC and middlemen.

Doherty further testified that he undertook no review other than to evaluate the activities as described to him by Gates. He testified that he did not interview other CIA employees, nor did he suspect NSC involvement in diversion to the contras. According to other testimony received by the Committee, Doherty did, however, direct in late October or early November that nothing relating to the Iran program be destroyed. Two CIA

employees, concerned, subsequently put all notes, documents, et cetera in a box.

Furmark testified that he next talked to Casey on October 16, 1986, and again asked for Casey's help in getting the U.S. government to resolve his clients' financial claims. According to his letter to the Attorney General of November 25, Casey had a senior CIA analyst and a CIA contract employee go up to New York to discuss the whole thing at length with Furmark. Memoranda dated October 17 and November 7 discussed their meetings with Furmark.

The memorandum dated October 17 recounted a brief conversation between the senior CIA analyst and Furmark on October 16. It did not mention use of arms sale profits for "other projects," but did relate Furmark's allegation that $3 million of the $8 million paid by the Iranians for the May 1985 transaction had been used "to cover expenses and for other matters" and that $10 million was still owed to the Canadian investors who financed the May transaction.

The senior CIA analyst's memorandum dated November 7 described a meeting between Furmark and the senior CIA analyst on the afternoon of November 6 in Washington in which Furmark warned that the Canadian investors intended to expose fully the U.S. government's role in the Iran arms transactions. Furmark, according to the memorandum, said they knew that Secord was heavily involved in managing the Iran arms transactions for North, and that Secord was also involved in assisting North in support of the contras in Nicaragua. Furmark also said the Canadians believed they had been swindled and the money paid by Iran for the arms may have been siphoned off to support the contras in Nicaragua.

According to testimony by Gates, on November 6, Casey and Gates met with Poindexter at the White House. According to testimony by Gates, Casey recommended that Poindexter bring in the White House counsel, but Poindexter replied that he did not trust the White House counsel and would talk instead to Paul Thompson (a lawyer and military assistant to Poindexter). Gates also said he learned at that meeting that Casey had a prior discussion with Poindexter in which he may have recommended that North obtain legal counsel. A similar rendition of this conversation was later contained in Casey's November letter to the Attorney General.

The senior CIA analyst and the CIA contract employee returned to New York on October 22 to meet with Furmark and afterward drafted a memorandum for Casey to send to Poindexter. The memorandum reported that Ghorbanifar had told Furmark and Khashoggi that he believed the bulk of the original $15 million price for the May shipment was earmarked for Central America. The memorandum continued that in this regard, Ghorbanifar told Furmark that he was relieved when the $100 million aid to the

contras was passed by Congress.

According to the memorandum, Furmark also presumed that $2 million of the $8 million paid by the Iranians to Ghorbanifar went to Nir, as agreed to at a meeting among the financiers, Ghorbanifar, and Nir in May.

A signed copy of this memorandum has not been received by the Committee. In his November 25, 1986 letter to the Attorney General, Casey said he had not read it "until this morning" and did not recall ever having read it before. In this letter Casey further said that he had been told the memorandum was prepared but apparently never went forward.

The senior CIA analyst testified that he was not looking at the question of improprieties but rather as an intelligence officer was focusing on damage control.

The analyst testified that Furmark felt Ghorbanifar firmly believed money was diverted to the contras, and the analyst had the impression Furmark also believed the money was diverted.

According to testimony by the analyst, the October 22 meeting with Furmark was the first time he had heard a direct allegation that Ghorbanifar suspected the bulk of funds raised for HAWK spare parts had gone to the contras. He testified that the quick briefing he and the CIA contract employee gave Casey after their October 22 meeting with Furmark included mention of diversion. The contract employee who drafted the memo to Poindexter, testified that Casey may have conveyed its substance to Poindexter by phone and that Casey remembered seeing the memo.

According to notes of the Attorney General's inquiry, North told Meese on November 23, 1986 that Poindexter had asked North in mid-November to compile a history of the Iran program. North reportedly told Meese that he went to the files and also talked to McFarlane, Poindexter, and others in compiling the chronology. None of the materials prepared in the White House during this period and received by the Committee referred to the use of Iran arms sales proceeds for the Nicaraguan resistance, although one chronology dated November 17 and labeled "maximum version" has in handwriting at the end of a list of Iran program accomplishments the notation "Nicargua" (sic).

NSC Executive Secretary Rod McDaniel testified that sometime during October or November, North commented to the effect that "one of the great ironies was how the Iranians were helping the contras." McDaniel testified that he did not give much thought to the comment at the time because North was given to hyperbole.

According to testimony received by the Committee, on Wednesday, November 19, Casey was briefed in preparation for his appearance before the Senate Intelligence Committee set for November 21. Testimony received by the Committee indicated that

in this briefing Casey may have been made aware that there might be a problem in the area of diversion of Iran project funds to the contras. The CIA task force chief recalled being totally flabbergasted upon learning of the possible interconnection between Nicaragua and the Iran program from Casey's aide.

The CIA Comptroller testified that he learned of the possible diversion of funds to the contras on November 18-19. The Comptroller recalled that a CIA operations officer speculated that money may have been diverted as they were preparing Casey's testimony for November 21.

The Comptroller's testimony that he shared this information with the CIA Executive Director and learned that Casey and Gates had made their concerns known to Poindexter after learning of the subject in October.

The CIA Inspector General testified before the Committee and described as "fairly significant" the evidence that had begun to develop in the CIA by early November that some diversion might be taking place. The IG testified that he asked for the senior CIA analyst memos about suspected diversion of money to Central America on November 13 and that Casey and Gates saw Poindexter the next day to discuss the issue again.

In other testimony, the executive assistant to Deputy Director for Operations at CIA testified that although there is a record in the DO registry of a memo from the senior CIA analyst on the analyst's third meeting with Furmark, he had only a vague recollection of the DDO having viewed the memo. The executive assistant said he had helped draft Casey's testimony for November 21, but in none of the drafts was there ever any mention of diversion of funds.

According to testimony by Meese, he spoke with Poindexter after the President's news conference on November 19. Meese testified that he was concerned about the absence of a "factual chronology" and Casey's forthcoming testimony. Meese said he had also talked to Poindexter earlier in the day in Poindexter's office after a meeting where Casey was present. Poindexter reportedly asked Meese to come back the next day to help prepare Casey's testimony.

The NSC staff had prepared a 17-page historical summary of the Iran program dated November 20 which appears to contain numerous important omissions and misstatements of fact about the program (the White House chronology). According to testimony by Meese, on November 20 he and Assistant Attorney General Charles Cooper went to a meeting at the White House where Casey, Poindexter, and others from the NSC staff reviewed Casey's testimony and a chronology to see if they squared with Meese's recollection of the legal discussions and the facts. Meese testified that he left before the meeting was over, but that Cooper stayed. In the evening, Meese received a secure call

advising him that other Justice Department officials working on the Iran matter were concerned about gaps in information and inconsistent recollections.

On the same night of November 20, according to notes of the Attorney General's inquiry, Secretary Shultz went to the White House residence to see the President and told him that some of the statements would not stand up to scrutiny.

Meese testified that on the morning of Friday, November 21, when Casey was testifying on the Hill, after learning from his staff of more discrepancies with State Department information, he met with the President and Regan. Meese testified that he reported his concerns about the need for an accurate account, particularly in view of upcoming testimony to Congressional committees. The President reportedly asked Meese to review the facts to get an accurate portrayal by the different agencies involved. Meese testified that he "didn't smell something was wrong," but was bothered "that there were things we didn't know." According to Meese, the President did not request an investigation but asked Meese to pull the facts together so they could have a coherent account. Regan reportedly suggested that Meese's review be completed by 2:00 p.m. on Monday, November 24, when an NSC meeting on Iran was scheduled.

Meese testified that he later discussed the Iran matter with FBI Director Webster and told him what the President has asked Meese to do. According to Meese, he and Webster agreed that, as there was no criminal matter involved, it would not be appropriate to bring in the FBI.

On the afternoon of November 21, Meese assembled a small team of Justice Department officials and aides, including Assistant Attorneys General Charles Cooper and Bradford Reynolds. This team did not include any senior Department officials responsible for criminal investigations.

According to testimony received by the Committee, in this same time period, on November 21 Poindexter briefed the leadership of the SSCI in the White House in the morning. In the afternoon Casey appeared before the Committee on the Hill, accompanied by other CIA officials. The possibility of use of Iran arms sale proceeds for the Nicaraguan resistance was not mentioned.

Gates later testified that the reason Casey said nothing about the possible diversion of funds was that they knew nothing more on November 21 than they did on October 14, i.e., bits and pieces of information and analytical judgments by one intelligence officer, and that this was not considered very much to go on. The senior CIA analyst testified that he helped prepare the DCI's testimony which focused on what CIA knew and what support they gave the NSC. He said there was no discussion in his presence of the possibility of diversion of funds.

The next morning, Saturday, November 22, while Meese was meeting with Shultz, members of the Attorney General's staff including Reynolds, examined documents in NSC files at the White House. Meese later testified that Poindexter had given permission for this file review and that NSC staff including North and Paul Thompson were present in the NSC offices when it was conducted. Meese testified that he received no information that North shredded documents in his office.

Meese's staff went through the documents presented to them and had copies made of those they thought important. The Attorney General's staff discovered in NSC files the Undated Memorandum which included a discussion of use of Iran arms sale proceeds for the Nicaraguan resistance. Reynolds advised Meese of this discovery at lunch. Meese testified that following a meeting with former CIA General Counsel Sporkin in the afternoon, Meese made an appointment with North to meet the following day. Meese testified that he had planned to interview North in the morning, but agreed to a delay until 2:00 p.m. because North wanted to have time to go to church and be with his family.

According to testimony received by the Committee, North arranged to consult with an attorney after meeting with lawyers from the Justice Department on Saturday, November 22, to obtain legal counsel.

According to testimony by Meese, that Saturday evening Meese met with Casey at Casey's home. They had talked on the phone earlier in the day. At their meeting Casey discussed Furmark and the Canadian investors. Meese recalled no mention of the contras, Nicaragua, anti-Sandinistas, Democratic Resistance, Freedom Fighters or Central America. At one point he said it was possible that Casey may have mentioned something similar, but he subsequently said he was sure Casey did not mention the possible diversion of funds.

McFarlane testified that on Sunday morning, November 23, North called him and asked to meet him in McFarlane's office. According to McFarlane, North arrived at 12:30 p.m. and the two had a private discussion for about fifteen minutes. North said he would have to lay the facts out for the Justice Department later that day on the diversion of Iran money to the contras. McFarlane testified that North also stated it was a matter of record in a memorandum North had done for Poindexter. McFarlane asked if it was an approved matter, and was told that it was.

According to McFarlane, North stated that McFarlane knew North wouldn't do anything that was not approved.

McFarlane testified that after their private meeting, an attorney named Tom Green arrived; as the meeting ended, Secord arrived. McFarlane testified that he learned later than Green was Secord's lawyer.

At 2:00 that afternoon North met with Meese, Reynolds and Cooper, and another Justice Department official named Richardson, who took extensive notes. According to the notes, Meese began by explaining that he wanted to get all the facts from everyone involved and flesh out different recollections. Meese said he had talked to the President and Poindexter. He stated that the worst thing that could happen was if someone tried to conceal something to protect themselves or the President or put a good "spin" in it.

Meese testified that he did not know North well on a personal basis, but did have considerable contact with him in and out of the White House on a casual basis. Based on his discussion with North and what he read subsequently, Meese was convinced North was "zealous about the mission he felt he had." Meese concluded that North had let Poindexter know what he was doing and had not been forbidden from doing it. Meese testified that it never occurred to him that there would be any collusion of an untoward nature and that it was at the time still not a criminal matter. North was questioned at some length about the Iran program before being confronted with the Undated Memorandum with the passage on use of residual arms sale funds for the Nicaraguan resistance.

Meese testified that he recalled being disturbed and troubled, but not apprehensive. Steps were taken, however, to get McFarlane in right away, the next morning -- North had said he told McFarlane during the Tehran trip about use of Iran arms proceeds for the Nicaraguan resistance.

Meese was asked by the Committee if he sought out Poindexter immediately so as to prevent any communications between Poindexter and North on what North had just told Meese and the other Justice Department officials. Meese testified that he did not.

Meese testified the next morning, Monday, November 24. Meese met with his staff and went over what they had found. Meese recalled asking his attorneys to look over what criminal laws or others laws might be applicable. Meese was not sure whether he talked to the FBI Director on Monday.

Later that morning Meese also talked to McFarlane to find out what he knew about money being available to the Nicaraguan resistance. According to Meese, McFarlane said he knew nothing until his trip to Tehran, and that was the only thing he knew about it. Meese's conversation with McFarlane was brief;: he said he was only trying to verify certain facts. Meese also talked briefly to Weinberger by phone; Weinberger did not have much to add.

Meese testified that at 11 a.m. that morning he met with the President and Regan telling them that during his review, Meese

had come across indications that money from Iranian arms transactions may have gone to the Nicaraguan resistance. Meese testified he told them he had talked to North who had acknowledged that in fact that had happened.

Meese told the President he had not completed his review and would get back to him later that afternoon after talking to other people, including Poindexter. Meese said the President looked shocked and very surprised, as did Regan, who uttered an expletive.

Meese recalled that at this meeting or at one later in the day, the President said it was important "to get this out as soon as possible." Regan recalled a discussion with Meese in the morning at which Meese told him he needed to arrange a meeting with the President about what he had found out on Monday afternoon.

Meese testified that he talked to Poindexter in the latter's office very briefly on Monday afternoon. No notes were taken and Meese was alone. Meese recalled telling Poindexter what had been learned from North and asking if he knew about the matter. According to Meese, Poindexter said yes, he knew about it generally. According to Meese, Poindexter said North had given him "enough hints" that he knew there was money going to the contras, but he "didn't inquire further." Meese further testified that Poindexter said he had already decided he would probably have to resign because of it.

Meese testified that he asked Poindexter if he had told anyone about the money going to the contras, and Poindexter said he had not. Their conversation lasted about ten minutes, because Meese needed to get back to see the President. Meese testified that he did not consider his talk with Poindexter an "investigation" or a "criminal investigation," and Meese said he did not consider the matter a law violation "on its face." He was trying, he said, to find out what happened from a respected member of the Administration.

Meese testified that he met with the President and Regan at 4:30 p.m. that afternoon and related what he had learned, including Poindexter's acknowledgement that he had knowledge of the contra funds. Meese said he discussed looking at what applicable criminal laws there might be. They arranged to meet again the next morning at 9:00 after sorting things out because it was "a tremendous surprise and shock to everybody." Meese testified that he knew that "neither Don Regan nor Ronald Reagan knew anything about this." Regan recalled the President's dismay and surprise at the discovery, and his decision to go public with it. Regan testified that the President had made clear to his staff that while he strongly supported the Nicaraguan resistance, such support should be provided by lawful means.

Meese testified that he talked with the Vice President that

Monday and told him what had been learned. Meese "asked him if he had known anything about it, and the Vice President said no, he had not." Meese also recalled that the possibility of Poindexter's resignation was discussed Monday evening, possibly between Regan and the President. Meese learned that Regan talked to Casey on Monday night.

Two other meetings occurred on Monday, November 24. According to his notes, Assistant Attorney General Cooper met with Tom Green who said he represented North and Secord. After discussing Hakim's role in proposing use of Iran arms proceeds to the Nicaraguan resistance, Green said Hakim and Secord felt like they were doing the Lord's work. They believed they were not violating any laws. Cooper's notes say Green warned that if the matter blew up, Iran would kill one or more of the hostages and two other individuals would also probably be killed.

According to testimony by Furmark, also on Monday, he met again with Casey at CIA headquarters. According to Furmark, Casey told him there was $30,000 in the account. Furmark assumed he meant the Lake Resources account. Furmark testified that Casey called North. Then Casey stated repeated that he did not know where the money was. Casey also called Assistant Attorney General Cooper. Furmark testified that Casey's staff told him the only way they knew about the Lake Resources account was because Furmark had told them about it. According to Furmark, North apparently told Casey that the Iranians or the Israelis owed Ghorbanifar and Khashoggi the money. Furmark said Casey tried and failed to reach Regan and Meese.

Meese testified that he met with Casey at Casey's home the next morning at 7 a.m., Tuesday, November 25. Casey had called Meese at 6:30 to ask him to stop by. Meese could not recall the conversation, except that it was generally about the situation and what Meese had learned. Casey told Meese that Regan had talked to him the night before about the money-to-the-contras situation. While with Casey, Meese received a call from Regan who said he was going to talk with Poindexter. Regan verified that Meese would be at the White House at 9:00. Casey also apparently told Meese he would send him the Furmark memoranda, which he did by letter. At 8:00, according to his testimony, Regan talked with Poindexter and indicated he felt Poindexter should be ready to resign when he saw the President at 9:30. Regan testified that when he questioned Poindexter about his negligence, Poindexter responded that he had felt sorry for the contras and wanted them to get help. He had, therefore, not questioned where the money came from.

Meese testified that at 9:00 he met with the President and Regan. He testified that he told them more of what he had found out and that a criminal investigation would probably be convened. According to Meese, they realized this was "a very momentous occasion" and that the worst thing for the President would be the appearance of covering up. The emphasis was on getting it out to

the Congressional leadership and the public and, in parallel with that, commencing a criminal investigation.

Meese disclosed his findings at a noon press conference. Meese testified that he arrived at the $10-30 million figure he used at the press conference by taking North's statement that $3-4 million went to the Nicaraguan resistance on one occasion and the April 4 document which referred to $12 million. North had said two or three shipments were involved. Multiplying the sums for one transaction by three gave $10-30 million as an approximation.

Meese told the Committee that after his press conference and a luncheon with the Supreme Court, Meese walked back to the Oval Office with the President. He told the President that he was going back to the Justice Department because they were pursuing a criminal investigation.

Meese recalled that, at the press conference, he did not know if any criminal violations were possibly involved. According to his testimony, Meese commenced a criminal investigation that afternoon.

He directed the Deputy Attorney General notify the White House Counsel to be sure that security precautions were taken on all documents, and he directed the Assistant Attorney General for the Criminal Division to meet with the Assistant Attorney General for the Office of Legal Counsel (Mr. Cooper) to discuss possible laws that might apply, including criminal laws. Meese testified he also met with FBI Director Webster and told him he was turning the matter over to the Criminal Division and would "probably" need FBI resources. According to Meese, FBI resources were requested the next day, November 26.

Meese testified that Israeli Foreign Minister Peres called him on the afternoon of November 25. According to Meese, Peres said they had heard what had happened and that all they had done was tell the Iranians where to put the money. They had not handled the money. They had told the Iranians what bank accounts to put the money into, and how much.

According to an NSC staff member who shared North's office suite, a security officer came to the office on the evening of November 25 for the purpose of sealing the office. The staff member said he had no knowledge that any papers were destroyed.

On November 25, 1986, Assistant Secretary Abrams and the CIA task force chief appeared before the Committee at a regular hearing to review implementation of U.S. Nicaragua programs. In response to questions about third-country support for anti-Sandinista forces, neither witness revealed the solicitation of $10 million in August. In testimony on December 8, 1986, under oath, Mr. Abrams apologized to the Committee for withholding this information. He said he did not feel he had

been asked a direct question and did not realize until shown the transcript that his statements clearly left a misleading impression.

After the initiation of the Committee's initial investigation on November 28, the Committee received information indicating that profits from Iranian arms sales were deposited in account(s) in a Swiss bank called Credit Fiduciere Services (CFS) and that such accounts were opened and/or controlled by Richard Secord, Thomas Clines, and Theodore Shackley. CFS then transferred money to its subsidiaries in Grand Cayman which disbursed it to the Nicaraguan resistance.

This report was based on sources of unknown reliability and the Committee has not been able to verify its contents.

According to testimony received by the Committee, private funding for the Nicaraguan resistance generally was funnelled through offshore bank accounts in the Cayman Islands and Panama controlled by Adolfo Calero. However, the Committee received no direct testimony regarding the actual receipt of specific amounts of money by the Nicaraguan resistance. According to testimony by the CIA task force chief who was responsible for monitoring the financial status of the Nicaraguan resistance, there was no unusual infusion of funds to the Nicaraguan resistance in 1986.

II. Unresolved Issues

The Intelligence Committee has, as reflected in this report, gathered a considerable amount of information, both through testimony and documentation, regarding the sale of arms to Iran and possible diversion of funds to the Nicaraguan resistance. This information, we believe, will be helpful to the Select Committee as it undertakes its investigation into these matters.

In accordance with Senate Resolution 23, the Committee recommends that the Select Committee pursue a number of questions and issues on which this information bears. These items are not meant to be limiting in any way to the work of the Select Committee, but, consistent with provisions of Senate Resolution 23, they are areas of inquiry that the Intelligence Committee believes the Select Committee might consider as part of its investigation.

1. What role did members of the White House staff play in planning and implementing the sale of arms to Iran and the possible diversion of funds to the Nicaraguan resistance?

2. What role did the CIA and other U.S. Government agencies or their officials play in planning and implementing the sale of arms to Iran and the possible diversion of funds to the Nicaraguan resistance?

3. What role did private individuals, both citizens of the U.S. and citizens of foreign countries, including private arms dealers and financiers, play in planning and implementing the sale of arms to Iran and the possible diversion of funds to the Nicaraguan resistance? Why did U.S. officials rely upon such private individuals in lieu of established U.S. government agencies?

4. What role did officials, agents, representatives and emissaries of foreign countries, including, without limitation, Israel and other Mideast nations, play in planning and implementing the sale of arms to Iran and the possible diversion of funds to the Nicaraguan resistance?

5. When, by whom and to what extent were the activities of individuals acting independently or on behalf of the U.S. in planning and implementing the sale of arms to Iran and the possible diversion of funds to the Nicaraguan resistance authorized by the officials of the U.S. Government?

6. When, by whom and to what extent were the activities of individuals acting independently or on behalf of the U.S. in planning the sale of arms to Iran and the possible diversion of funds to the Nicaraguan resistance made known to officials of the U.S. Government?

7. How were funds raised by or with the participation of U.S. officials for the benefit of the Nicaraguan resistance from any and all sources, including, without limitation, private individuals, third countries, and the sale of arms to Iran? How and by whom were such funds administered? In what way, to whom and for what purposes were such funds expended?

8. Except as authorized by Congress, what forms of assistance, other than funds, were provided by or with the participation of U.S. officials to the Nicaraguan resistance and by whom? When, by whom and to what extent were such other forms of assistance authorized by or known to officials of the U.S. Government?

9. To what extent was assistance, both financial and otherwise, that was provided to the Nicaraguan resistance by private citizens and officials of the U.S. Government consistent with applicable law?

10. To what extent was assistance to Iran, including, without limitation, the sale of arms and the provisions of intelligence, consistent with applicable law?

11. To what extent were the objectives of U.S. officials in selling arms to Iran frustrated by the participation and possible enrichment of private individuals?

12. To what extent were the objectives of U.S. officials in raising funds for the Nicaraguan resistance, whether or not such objectives were authorized by applicable law, frustrated by the participation and possible enrichment of private individuals?

13. Whether upon being made aware of information with regard to the unauthorized and possibly unlawful provision of financial and other assistance to the Nicaraguan resistance, U.S. officials acted properly in investigating and reporting such information.

14. How, when, and by whom were financial decisions made and implemented with respect to the sale of arms to Iran, including, without limitation, the basis upon which prices for arms were determined, the way in which funds were raised, administered and expended to effect the sales, and by whom, when, how and to whom the proceeds from such sales were distributed?